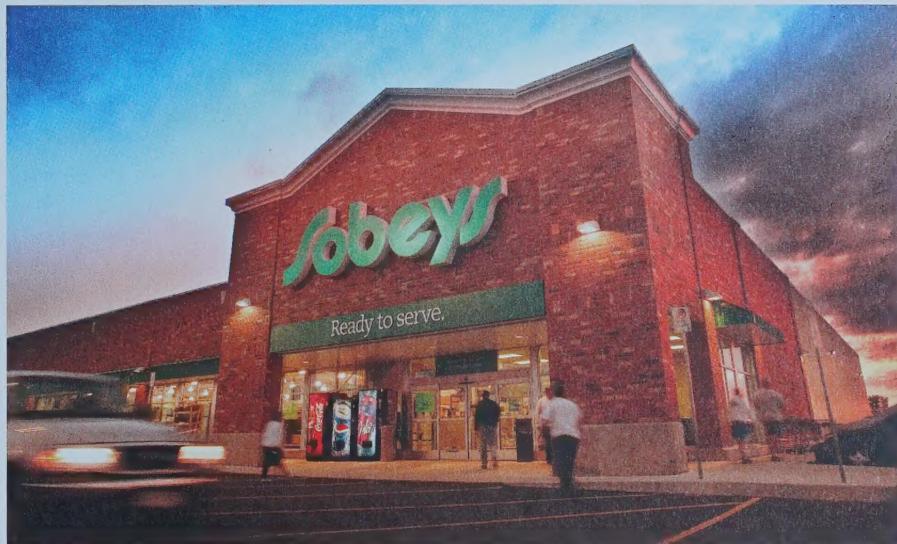
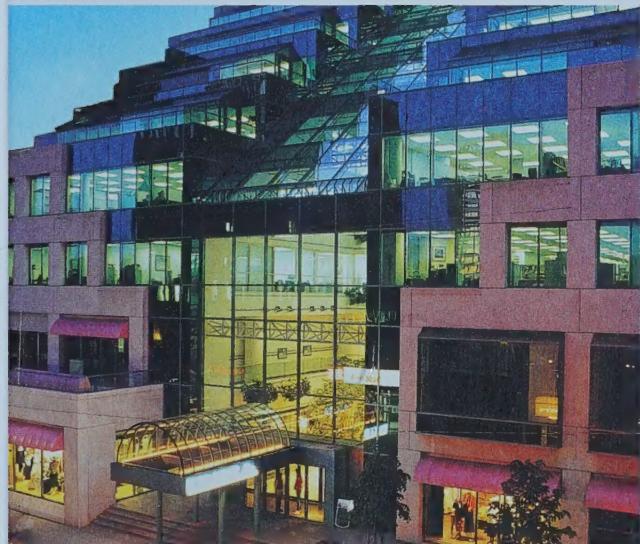


## EMPIRE COMPANY LIMITED

Annual Report 2003



E M P I R E

Empire Company Limited is a diversified Canadian company whose key businesses include food distribution, real estate, and corporate investment activities. Guided by conservative business principles, our primary goal is to grow long-term shareholder value through income and cash flow growth and equity participation in businesses that have the potential for long-term growth and profitability.

## Financial Highlights

Years Ended April 30 <sup>th</sup> (\$ in millions, except per share amounts)	2003	2002	2001
<b>Operations</b>			
Revenue	\$10,624.2	\$ 9,926.5	\$ 9,331.1
Operating income	444.9	416.2	341.1
Operating earnings	159.9	132.2	88.5
Capital gain (loss) and other items, net of tax	(6.0)	13.7	491.5
Gain on sale of discontinued operations, net of tax	—	50.0	—
Net earnings	153.9	195.9	580.0
<b>Financial Condition</b>			
Total assets	4,516.1	4,318.0	4,254.3
Long-term debt	923.1	975.0	1,107.2
Shareholders' equity	1,427.1	1,290.6	1,115.0
<b>Per Share Information, basic and diluted</b>			
Operating earnings	2.43	2.00	1.33
Capital gain (loss) and other items, net of tax	(0.09)	0.21	7.49
Gain on sale of discontinued operations	—	0.76	—
Net earnings	2.34	2.97	8.82
Book value	21.54	19.47	16.82
Dividends	0.3300	0.2138	0.1700
<b>Share Price</b>			
High	33.25	33.30	18.25
Low	23.70	15.75	13.88
Close	23.85	28.88	17.00

Effective October 7, 2002, both the Class A and Class B common Shares were split on the basis of two-for-one. All per share amounts have been restated to reflect the stock split.

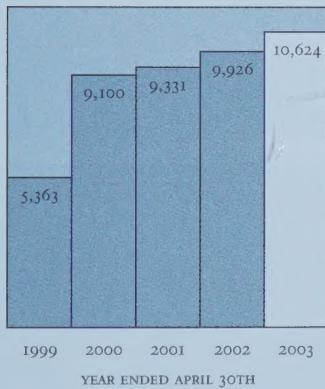
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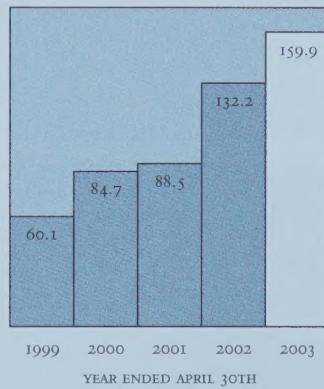
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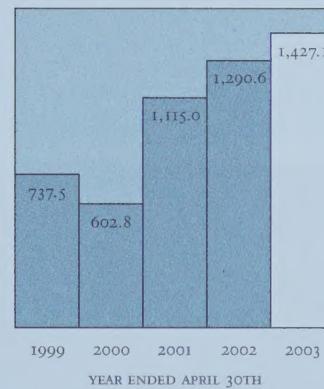
REVENUE  
(\$ in millions)



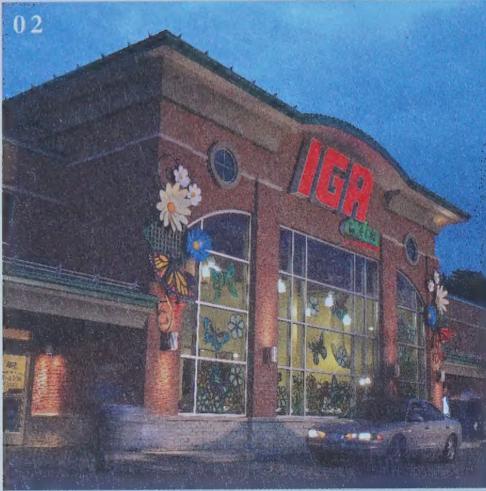
OPERATING EARNINGS  
(\$ in millions)



SHAREHOLDERS' EQUITY  
(\$ in millions)



Empire brings a particular perspective to its operating businesses and to its investments – one that is characterized by a longer-term shareholders' view. As such, we will not sacrifice long-term growth in shareholder value for simply a short-term win. We continue to believe that the two key factors in the creation of value are first, strong management and second, an emphasis on long-term growth in cash flow that exceeds the after-tax dollar cost of capital. Empire's shareholders have been well-served by the Company's approach to growing value and we intend to stay the course. Over the last seven years, the total return to Empire shareholders has averaged 22.7 percent per year, including dividends, which have grown by an average 17.4 percent per year over this same time period.

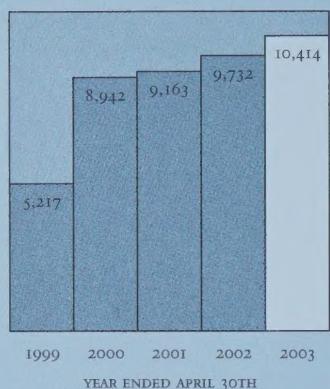


## FOOD DISTRIBUTION

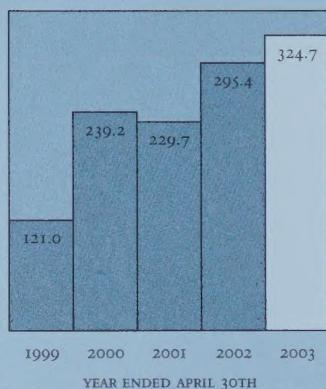
Sobeys Inc. ("Sobeys"), a 62 percent-owned subsidiary of Empire, is one of Canada's two national retail grocery and food distribution companies with annual revenue of \$10.4 billion. Headquartered in Stellarton, Nova Scotia, Sobeys own or franchises more than 1,300 stores in all 10 provinces under retail banners that include Sobeys, Garden Market IGA, IGA, IGA extra, and Price Chopper. Subsequent to year-end, in July 2003 Empire increased its ownership in Sobeys to approximately 64.5 percent.

- Revenue increased by 7.0 percent, while same-store sales grew by 3.2 percent during fiscal 2003.
- Operating earnings grew by 11.0 percent.
- Built 45 new or replacement stores and expanded another 16 stores during fiscal 2003.
- Launched the Ready to serve™ marketing program in Ontario and Atlantic Canada.
- Converted 17 IGA stores in Ontario to Sobeys, converted 30 LoFood and Foodland stores in Atlantic Canada to Price Chopper.

FOOD DISTRIBUTION REVENUE  
(\$ in millions)



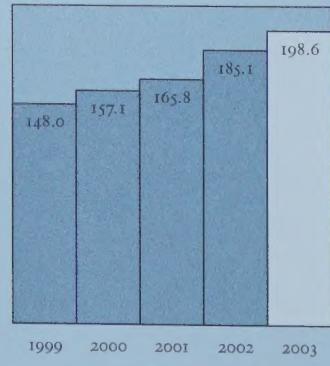
FOOD DISTRIBUTION  
OPERATING INCOME  
(\$ in millions)



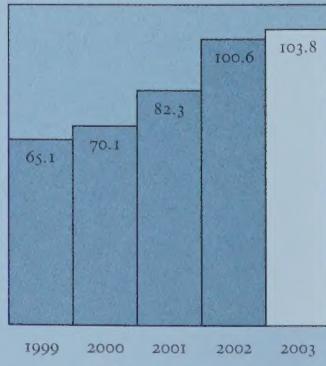
## REAL ESTATE

Empire owns the largest portfolio of prime retail properties in Atlantic Canada through wholly-owned Crombie Properties Limited ("Crombie"), formerly Atlantic Shopping Centres group of companies, and Sobey Leased Properties Limited ("SLP"). Crombie owns and operates a diversified portfolio that includes 32 shopping centres and 9 office properties; while SLP's portfolio primarily focuses on supporting retail operations. The real estate division, through Crombie, also owns Atcan self-storage and 35 percent of Genstar Development Partnership ("Genstar"), a residential land development business with operations primarily in Western Canada.

REAL ESTATE REVENUE <sup>(1)</sup>  
(\$ in millions)



REAL ESTATE OPERATING INCOME  
(\$ in millions)



- Revenue increased by 7.3 percent.
- Funds from operations (operating earnings plus depreciation) increased 11.4 percent to \$53.7 million.
- Occupancy levels remained stable at 92.7 percent.
- Ratified a growth strategy to grow operating margin by buying and developing anchored strip centers, first in Ontario and later in Western Canada.

<sup>(1)</sup> Revenue is before inter-segment elimination.

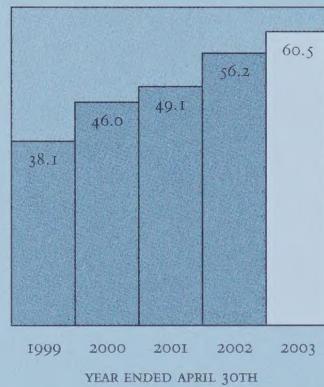


## OTHER OPERATIONS

Empire's other operations consist primarily of wholly-owned Empire Theatres Limited ("Empire Theatres"), the leading movie exhibitor in Atlantic Canada with 141 screens in 22 locations. Empire Theatres is committed to providing its customers with an enjoyable movie-going experience by offering modern stadium-style seating, a broad concession variety, and exceptional customer service.

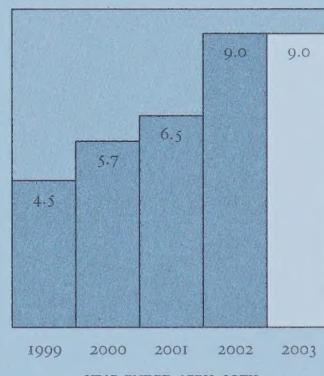
- Empire Theatres posted new records for revenue and operating income.
- One new Studio 7 theatre complex was opened during fiscal 2003, while renovations or expansions were completed in another four locations.
- Subsequent to year-end, Empire Theatres commenced construction on another Studio 7 theatre complex, as well as a remodel to a Studio 10 theatre.

OTHER OPERATIONS REVENUE  
(\$ in millions)

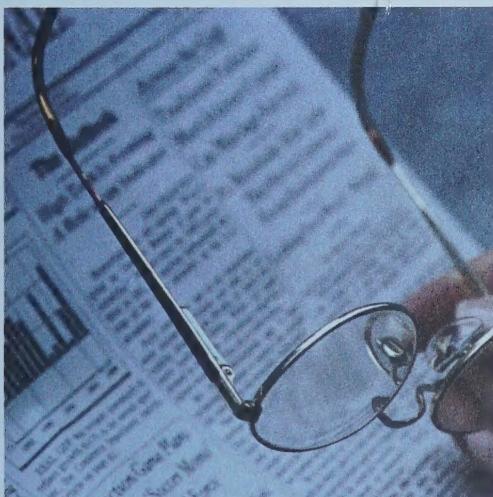


YEAR ENDED APRIL 30TH

OTHER OPERATIONS  
OPERATING INCOME  
(\$ in millions)



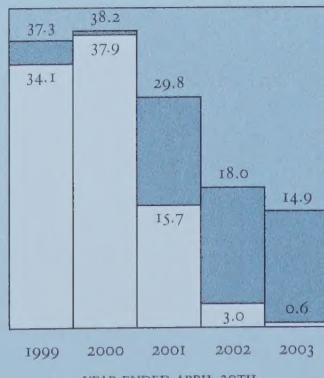
YEAR ENDED APRIL 30TH



## INVESTMENTS

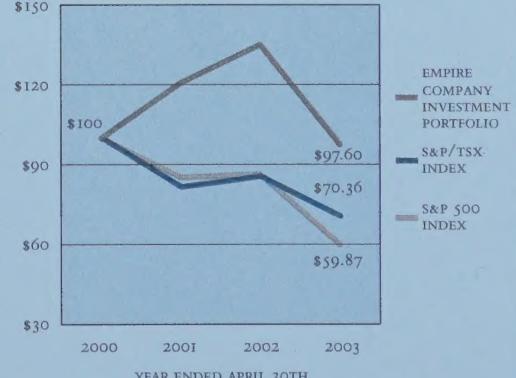
Empire manages an investment portfolio that carried a market value of \$318.7 million as at fiscal 2003 year-end. Empire is committed to maintaining a high quality, liquid investment portfolio that offers a combination of yield and attractive growth characteristics, providing Empire with a pool of capital to support the growth and development of our operating businesses and to enhance shareholder net asset value.

INVESTMENT INCOME<sup>(1)</sup>  
(\$ in millions)



YEAR ENDED APRIL 30TH

INVESTMENT PORTFOLIO  
TOTAL RETURN<sup>★</sup> VS. BENCHMARKS

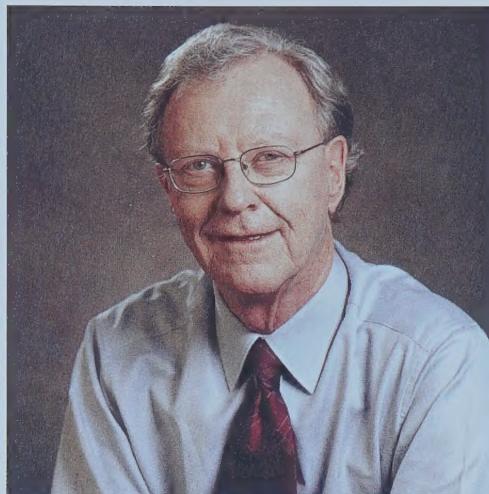


- The portfolio's three-year compounded annual return has significantly outpaced both the S&P/TSX and the S&P 500 equity indices.
- Over the last three-years approximately \$675 million of capital has been +allocated from the investment portfolio to strengthen our core operating businesses and to enhance shareholder value.

<sup>(1)</sup> The decline in equity earnings is related to the sale of Empire's investment in Hannaford Bros. Co. on July 28, 2000.

<sup>★</sup> \$100 invested on 04/30/2000 in Empire Company common shares or the index, including reinvestment of dividends.

**Empire has again reported record annual revenue and earnings from operations before net capital gain (loss) and other items. Revenue of \$10.62 billion increased by \$698 million or seven percent while operating earnings of \$159.9 million grew by 11 percent to \$2.43 per share. Most importantly, this financial performance has been achieved without sacrificing longer-term growth in shareholder value for a short-term win. Empire shareholders have been well-served by the Company's approach to growing value and we intend to stay the course.**



LEFT: PAUL D. SOBEY, PRESIDENT AND CEO  
RIGHT: DONALD R. SOBEY, CHAIRMAN

Empire's continued growth in operating performance reflects our unwavering commitment to enhance the worth of the Company's net assets and ultimately, to have that value reflected in Empire's share price. At the same time, we are committed to maintaining a reliable and increasing dividend. We have been successful in growing both share price and dividends per share over the long-term. Over the last seven years, the total return to Empire shareholders has increased by an average 22.7 percent per year, including dividends which have grown by an average 17.4 percent per year over this same time period.

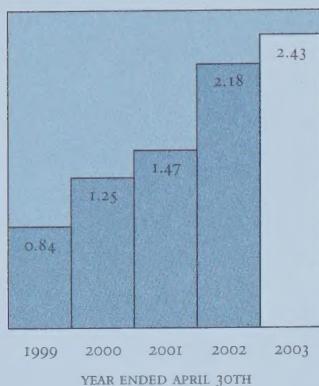
At its June 2003 meeting, the Board approved an annual dividend per share increase of 7 cents, bringing the annual dividend rate to 40 cents per share and marking the eighth consecutive year that the common share dividend has increased. This 21 percent dividend increase on both the Class A and Class B shares reflects the confidence your Board and management have in our operating businesses.

At Empire, we believe that management has three primary responsibilities:

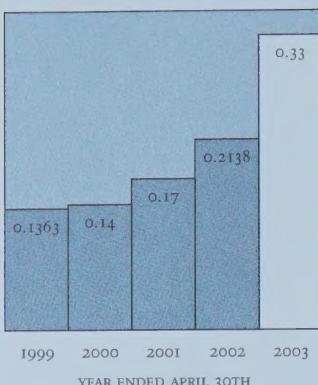
- *First, we must ensure that we have the best management operating the businesses we own or have an interest in.*

The results speak volumes. Sobeys is into its third year of new leadership. They have focused on enhancing the value of the business within their four walls like never before. They have pared the business to focus on the core operations. They set publicly articulated goals and went about the business of achieving them. Sobeys was able to maintain retail store service levels during a labour disruption at their Whitby, Ontario distribution centre, and for all concerned – our employees, franchisees, and customers – we are pleased that this issue was successfully resolved. We are also pleased to report that Empire's real estate and theatre divisions each had another record year.

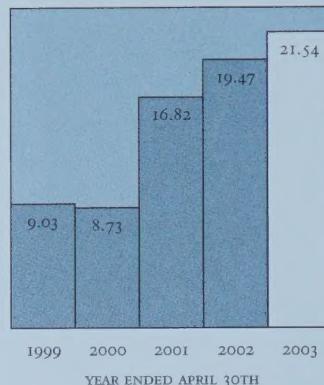
OPERATING EARNINGS PER  
SHARE BEFORE AMORTIZATION  
OF GOODWILL  
(\$ per share)



COMMON DIVIDENDS PER SHARE  
(\$ per share)



BOOK VALUE PER SHARE  
(\$ per share)



- Our second responsibility is to ensure that the financial structures of Empire and its subsidiaries facilitate growth while maintaining a conservative level of debt.

Empire's debt to total capital has declined to 45.9 percent from 49.6 percent a year ago. Sobeys has continued its focus on strengthening its balance sheet, a fact recognized by the financial markets. On February 26, 2003, Sobeys became the first BBB rated Canadian company to access the 15-year term Medium Term Note market.

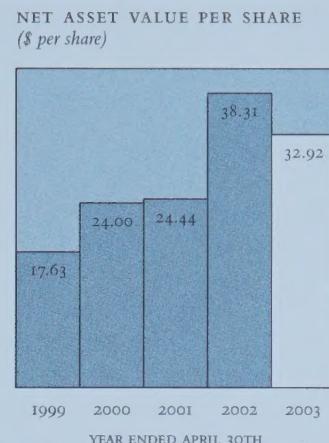
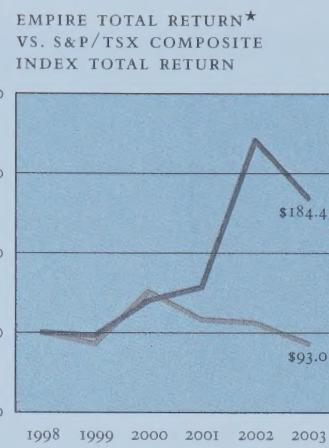
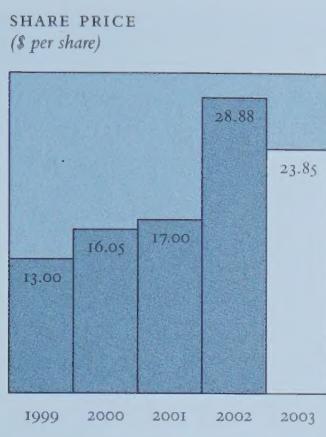
The real estate division has always had higher leverage reflecting the nature of its business with their debt to capital ratio declining from 75.3 percent a year ago to 71.5 percent. This division's debt is primarily self-amortizing through yearly sinking fund payments.

Finally, it is worth noting, that on occasion, we will leverage the Company at higher levels when the strategic and financial value proposition is compelling, as demonstrated with the Oshawa acquisition in 1998.

- Our third responsibility is to allocate capital in a manner that maximizes longer-term shareholders' value.

In the past three years, we have re-allocated approximately \$675 million in investment capital to both support the growth and development of our core businesses and to enhance Empire's net asset value. In addition, a significant amount of our operating businesses' cash flow is reinvested.

Of course, the manner in which we exercise these responsibilities also has an important bearing on Empire's long-term prosperity. The last several years have been a tumultuous time for the business world with the excesses and abuses at a few companies threatening to tarnish the reputation of all business leaders. Empire's Board of Directors continues its diligent work to ensure that the Company's corporate governance processes define clearly both the obligations of the Board to all shareholders and of management to the Board. Significant progress has been made over the last several years. For instance, Board and Committee mandates are reviewed regularly, the audit committee meets at least quarterly with the external auditor and without management present, and one Board meeting a year is principally devoted to strategic plans. You can read more about Empire's approach to corporate governance on page 18 of this report.



\* \$100 invested on 04/30/98 in Empire Company common shares or the index, including reinvestment of dividends

## Staying the Course

As a diversified holding company, Empire is committed to building sustainable shareholder value through long-term profitability and growth in its core operating businesses. Empire shareholders have been well-served over the long-term by our continued commitment to our core operating companies, while also maintaining a liquid investment portfolio with attractive yield and growth characteristics. Over the years, this portfolio has enabled Empire to take advantage of opportunities to accelerate the profitable growth of our core businesses.

We intend to stay the course by focusing our energies and capital on growing the long-term sustainable value in each of our core businesses – food distribution, real estate, and theatre operations. While each of these operations is attractive in its own right, together they also provide a significant degree of diversification by business line and market area. For Empire, the resultant benefits include an enriched earnings base, lower risk and volatility, and greater consistency in overall earnings growth.

## Strength Throughout Our Operating Businesses

We continue to be pleased with the performance of Empire's major holding, Sobeys. Subsequent to year-end, Empire increased its ownership in Sobeys to 42.46 million common shares, approximately a 64.5 percent ownership position. In fiscal 2003, Sobeys sales rose 7 percent to \$10.4 billion, while operating income contribution to Empire increased 10 percent to \$324.7 million. Earnings growth fell marginally short of Sobeys 12 to 16 percent target due to the labour disruption at their Whitby, Ontario distribution centre.

We are pleased with how far our food distribution business has come, and are excited by what lies ahead. Today, Sobeys serves the needs of more than 900 communities across Canada with an increasingly modern retail network, state-of-the-art distribution facilities, an ambitious capital program, and a customer-focused workforce.

Sobeys accounted for \$110.4 million or 69.0 percent of Empire's operating earnings in fiscal 2003, up from \$86.8 million or 65.7 percent of total earnings last year.

THE REAL RESTATE DIVISION ACCOUNTED FOR \$38.5 MILLION OR 24 PERCENT OF EMPIRE'S OPERATING EARNINGS IN FISCAL 2003, UP FROM A \$34.5 MILLION OPERATING EARNINGS CONTRIBUTION LAST YEAR.

Empire's real estate operations also enjoyed another record year. Thanks to strong contributions from the commercial real estate property portfolio and our 35 percent interest in Genstar, new records were posted for revenue, operating earnings, and funds from operations.

Real estate division revenues were ahead 7.3 percent to \$198.6 million, while operating income increased \$3.2 million or 3.2 percent to reach \$103.8 million. Occupancy levels during the year remained relatively unchanged and were 92.7 percent at year-end.

The real restate division accounted for \$38.5 million or 24.1 percent of Empire's operating earnings in fiscal 2003, up from \$34.5 million last year.

Wholly-owned Empire Theatres also posted new records for revenue and operating income, reflecting strong product quality during the year, along with management's continued focus on customer satisfaction and operational efficiency.

Fiscal 2003 was a challenging year for the equity markets and our investment portfolio did not escape the negative sentiments in the markets. At fiscal year-end, Empire's investments, consisting primarily of common equities, carried a market value of \$318.7 million against a book value of \$387.4 million. During fiscal 2003, total return on Empire's investments was negative 27 percent, resulting in unrealized losses at year-end of \$68.7 million.

While returns on investments were negative in fiscal 2003, over the last three-years the compounded return on the portfolio has significantly outperformed Canadian and U.S. equity indices and median manager performance. What's more, despite the recent performance of equity markets, we continue to believe that a prudently managed portfolio of high quality and liquid common equity investments will create superior after-tax returns relative to fixed income or money market investments.

Investments and other operations accounted for \$11.0 million or 6.9 percent of Empire's operating earnings in fiscal 2003, compared to \$10.9 million or 8.2 percent of total earnings last year.

Net capital loss and other items amounted to \$6.0 million during the year, primarily associated with the sale of investments. In the prior year, net capital gain and other items was \$63.7 million, including a \$50.0 million gain on the sale of discontinued operations.

THE PROGRESS MADE DURING THE PAST YEAR IS THE DIRECT RESULT OF THE HARD WORK OF MORE THAN 35,000 EMPLOYEES, FRANCHISEES, AND AFFILIATES AT EMPIRE AND ITS RELATED COMPANIES.

### **Looking Ahead**

We continue to be very satisfied with the performance of each of our operating businesses and, despite economic and competitive challenges, are optimistic that we can continue to enhance our net asset value and earnings growth going forward.

We will remain focused on supporting profitable growth in each of our operating companies while also growing the long-term value of our investments. We believe that our strategy, combined with our proven ability to execute effectively across our core businesses – food distribution, real estate, theatres, and investments – creates a solid foundation for future growth.

### **Great People**

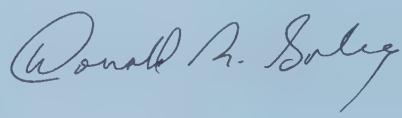
The progress made during the past year is the direct result of the hard work of more than 35,000 employees, franchisees, and affiliates at Empire and its related companies. We offer a sincere thank you for their ongoing support of our strategies to grow value by making the customer our number one focus.

We would also like to acknowledge the contribution of James Moody who has provided distinguished service to the Empire and Sobeys Board of Directors for over the last 20 years. Jim will not be standing for re-election as a Director. We are deeply indebted to Jim for his wise counsel.

Finally, on behalf of the entire Board, we also wish to thank our customers, business partners, and shareholders whose support is so essential to Empire's success.



**Paul D. Sobey**  
President and CEO  
July 18, 2003



**Donald R. Sobey**  
Chairman  
July 18, 2003



## SOBEYS

FISCAL 2003 WAS A YEAR OF SOLID PROGRESS IN SOBEYS' ONGOING JOURNEY OF BUILDING SUSTAINABLE WORTH FOR ITS CUSTOMERS, ITS EMPLOYEES AND FRANCHISEES, ITS SUPPLIERS AND ITS SHAREHOLDERS. WE ARE PLEASED WITH SOBEYS' ACCOMPLISHMENTS AND KNOW THEY ARE CLEARLY FOCUSED ON THE ROAD AHEAD. SOBEYS WILL CONTINUE TO CAPITALIZE ON THEIR REMARKABLE OPPORTUNITY FOR GROWTH.

Empire's food distribution business consists of its 62.0 percent ownership in Sobeys Inc. (subsequent to year-end the percentage ownership increased to 64.5 percent), one of the country's two national retail grocery and food distribution companies. Sobeys posted another solid performance in fiscal 2003, with sales rising 7.0 percent to \$10.41 billion. As in the previous year, operating income contribution to Empire increased at a faster pace, rising by 10 percent to \$324.7 million. Operating earnings totalled \$179.0 million or \$2.72 per share in fiscal 2003 compared to \$161.6 million or \$2.45 per share last year.

At the same time, rising cash flow from operations allowed Sobeys to continue the expansion and modernization of its retail network while maintaining a strong balance sheet. During the year, Sobeys' company-wide capital spending totalled \$546 million while total funded debt increased by 12 percent or \$61.8 million. At year-end, Sobeys' funded debt as a percentage of total capital had declined slightly – from 29.0 percent to 28.9 percent and debt to EBITDA remained unchanged at 1.3 times.

These results reflect a year in which Sobeys was able to meet most of its published financial and operating objectives for fiscal 2003, including six to eight percent sales growth. One important area in which the company fell short was operating earnings. On target to reach the high end of its 12 to 16 percent growth range at the end of the third quarter, a five-week strike at the Whitby, Ontario distribution centre that ended on May 6, 2003, adversely affected results. While this temporary disruption in Sobeys progress was unfortunate, detailed contingency planning enabled the company to provide its customers with excellent service during this labour disruption.

### **Sobeys' strategy for growth**

Sobeys fiscal 2003 results reflect the continuing success of the company's efforts to expand the retail store network while satisfying a greater percentage of the requirements of customers in existing stores and markets. At the same time, Sobeys has remained focused on steady margin growth through productivity improvements and selling initiative. Five key strategic thrusts continued to guide management's efforts in each of these areas over the past year.

*1. Customer-centric focus* Since the 1998 acquisition of The Oshawa Group, Sobeys has made steady progress in integrating its operations, generating the synergies made possible by its new scale, optimizing core operations and investing in the modernization of its store and distribution networks. As a result, Sobeys' efforts at building sustainable worth have created a dynamic national retail grocery and food distribution company with a solid foundation for continuing growth. Last year, Sobeys began to embark on the newest stage of its development – the differentiation of the company's retail brands and formats. In fact, as exemplified by Ready to serve™ – a customer-focused range of initiatives that's aimed at more clearly differentiating its stores in the hearts and minds of Canadian consumers – Sobeys is now poised to fully capitalize on its growth opportunities.



Much more than a new advertising slogan for the company's Sobeys banner stores, Ready to serve™ is an all-encompassing attitude and approach that Sobeys is adopting throughout the organization to create an unprecedented level of commitment to all stakeholders. Working together, the people at Sobeys are focused on creating and executing a service delivery attitude that is superior to anything else found in Canadian retailing. For Sobeys, that means being Ready to serve™ its customers' individual shopping experience expectations; its suppliers' appetites for long-term growth; its employees' and its franchisees' aspirations for a rewarding work and business environment; and our shareholders' expectations of ethical wealth creation. In short, Sobeys will Build Sustainable Worth by being Ready to serve™. In essence, being Ready to serve™ is the means by which Sobeys' overriding purpose of Build Sustainable Worth will continue to bear fruit.

Well-defined, well-communicated, and well-executed banners are an important part of the company's consumer-centric focus. For instance, the Sobeys banner is designed for success in the full-service segment of the market, with a focus on fresh-foods, high quality service and selection, unique regional products and a design and layout that makes shopping easier and more enjoyable for our customers. During the past year, the company strengthened both the positioning and critical mass of the Sobeys banner. In Ontario, 17 Garden Market IGA stores were converted to Sobeys and in Atlantic Canada, several Sobeys stores were refreshed with improvements in fresh merchandizing. Meanwhile, the introduction of Ready to serve™ in both regions has been driving higher operating standards, improved product quality and assortment, and a higher level of customer service in our stores.

A similar customer-centric focus has guided Sobeys' efforts in the full-service segment in Western Canada where the successful Garden Market IGA program was extended to 10 new communities. Sobeys also strengthened its full-service position in Quebec where customer research confirms IGA extra and IGA as the clear market leader for fresh foods, total shopping experience and share of customer requirements satisfied.

The same Ready to serve™ spirit extends to the resurgent Price Chopper format, which delivers everyday low prices and a fast, uncluttered shopping experience to the discount segment of the market. Sobeys continued to build the market presence of this important banner with the conversion of its Lofood stores and a number of both Foodland and Sobeys stores to Price Chopper in Atlantic Canada. We are pleased with the growth and success of the Price Chopper banner, and plan further expansion in the years to come.

Filling each banner with the right mix of products and services is critically important. By working more collaboratively with its suppliers, Sobeys continued to refine its retail product and service offerings during the year while minimizing purchasing costs and exceeding all of its C.O.R.E. national merchandising program objectives.



At the same time, Sobeys has maintained its commitment to retail brands, not in accordance with arbitrary volume targets but within the context of satisfying the greatest possible percentage of total customer requirements.

*2. Skilled and dedicated people* Sobeys' second strategic thrust is development of the best-informed and most engaged service people in the business. That's why the company continued to invest in the skills of its people – to demonstrate that Sobeys is Ready to serve™, that Price Chopper is The Smart Choice, that whatever the banner, Sobeys is dedicated to exceeding its customers' expectations for service and value. During the past year, Sobeys significantly increased its total investment in people with comprehensive initiatives in leadership and organizational development, customer service delivery, food handling and product knowledge. Sobeys has strengthened its leadership by redeploying management talent across regions and functions, and by recruiting new people. Sobeys superior franchisee system continues to employ and develop local talent who are uniquely equipped to serve the needs of customers in hundreds of communities across Canada.

*3. Disciplined cost management* Sobeys also remained focused on a series of efficiency initiatives during the past year designed to reduce selling, general and administrative costs. The year's major accomplishments included the implementation of a national distribution centre replenishment system, a best practice adopted from our Western region. Beyond improved service levels and purchase price optimization, Sobeys expects significant annualized working capital improvements as a result of the business process improvements enabled by this replenishment technology.

*4. Intelligent investment* At the same time, Sobeys is committed to balancing steady earnings growth with its determination to harness the full potential of the business over the long-term by modernizing and expanding its store base. During the year, total company-wide capital spending reached \$546 million, 85 percent of which was directed at their retail stores. A total of 45 corporate and franchise stores were opened or replaced and another 16 were expanded. This added an additional 1.44 million square feet of retail space and brought the company's total retail space up to 22.6 million square feet, a net 4.0 percent increase over the previous year.

Sobeys has also ensured that the national distribution network keeps pace with the growing demands of its retail operations. During the year, Sobeys completed the expansion of its Edmonton distribution centre, opened a new fresh food distribution centre in Montreal, expanded freezer capacity at its Milton and Whitby, Ontario sites, and commenced expansion of its distribution centres in Debert, Nova Scotia and St. John's, Newfoundland.



*5. Results through performance management* Sobeys fifth strategic thrust is the ethical achievement of results through consistent performance management. At Sobeys, authority, responsibility and accountability for the ethical achievements of results are mandated clearly and are measured both collectively and individually.

In addition to meeting its published target of six to eight percent revenue growth, Sobeys performed very well against a wide range of financial and operating objectives during the past year.

### **Outlook**

Sobeys continued to make significant progress in fiscal 2003. The company's efforts to build sustainable worth for all of its stakeholders have taken hold and continue to gain momentum. Today, the company serves the needs of more than 900 communities across the country with an increasingly strong retail network, upgraded distribution facilities, a focused capital investment program, and a customer-centered workforce that continues to build upon an enviable reputation for service. With a clear strategy in place, Sobeys is more focused on the marketing and merchandizing programs that will continue to differentiate its formats and banners than ever before. We expect that Sobeys will continue to achieve revenue and earnings growth in the year ahead.



## REAL ESTATE

THE REAL ESTATE DIVISION CONTINUED TO STRENGTHEN AND DIVERSIFY ITS ASSET PORTFOLIO IN FISCAL 2003, RESULTING IN A RECORD FINANCIAL PERFORMANCE. LOOKING AHEAD, THE REAL ESTATE BUSINESS IS POSITIONED FOR CONTINUED GROWTH THANKS TO THE STRENGTH OF ITS PEOPLE, HIGH QUALITY, WELL-LOCATED PROPERTIES, AND A CLEAR GROWTH STRATEGY.

Empire's real estate operations are focussed on the development and management of a portfolio of properties primarily located in Atlantic Canada. With 12.2 million square feet under ownership at the end of fiscal 2003, the real estate group owns and operates Crombie Properties Limited ("Crombie") (formerly Atlantic Shopping Centres) and Sobey Leased Properties Limited ("SLP").

Today, 10.6 million square feet or 87 percent of the gross leasable area in our real estate portfolio is retail space, of which 40 percent is leased to an Empire-affiliated company. The retail segment includes 32 shopping centres owned and managed by Crombie, representing 6.1 million square feet. Crombie also owns and manages 9 office properties representing 1.6 million square feet or 13 percent of gross leaseable area. SLP owns and manages 4.5 million square feet, mainly free-standing food stores and food stores with attached plazas. Crombie also provides storage space, through Atcan self storage, in four locations and has three under development, mostly in Atlantic Canada. The real estate group, through its 35 percent interest in Genstar, participates in the residential property development market through its ownership of approximately 7,000 acres in Vancouver, Calgary, Edmonton, Winnipeg, and parts of Southern Ontario.

The real estate growth strategy is clear: to increase rental operating margin through active management of the existing property portfolio while also pursuing accretive property acquisitions and developments in Ontario and, in the future, Western Canada. The primary goal is to contribute to Empire's long-term growth in shareholder value through meaningful real estate income and cash flow growth and accretive asset appreciation.

Crombie has demonstrated its competency in acquiring and managing anchored strip centres and will continue to grow by developing and buying individual sites and portfolios of anchored strips. When possible, Crombie will develop properties with Sobeys as anchor tenant. SLP has head-leased all of its real estate to Sobeys on a basis that fully amortizes all property debt; growth is built in as the debt is repaid and the underlying real estate appreciates in value, year by year, to the benefit of Empire. Genstar will continue to offer a window on growth in residential development, primarily in Western Canada, and with potential opportunities in the United States.

Empire's real estate division posted record financial performance in fiscal 2003. Revenue totalled \$198.6 million, an increase of 7.3 percent over fiscal 2002, while operating income grew by 3.2 percent, to \$103.8 million. In fiscal 2003, real estate contributed 23 percent of Empire's consolidated operating income and 24 percent of Empire's operating earnings. Funds from operations – operating earnings plus depreciation – totalled \$53.7 million, up 11.4 percent over the same period last year.

The improved real estate financial performance is the direct result of three factors: first, a strong contribution from Genstar; second, successful re-development activity; and third, higher net effective rental rates and ongoing strict cost controls.



We have been very pleased with the contribution in fiscal 2003 from our investment in Genstar. Residential lot sales have been strong throughout the cities where Genstar has land, but particularly in Calgary and Edmonton, where the majority of land is held for development.

With respect to re-development activity, in order to maximize the potential of existing real estate assets, a number of enclosed mall locations have been slated for re-development into strip centres. In these particular locations this conversion provides a more efficient use of space and gives clients better access and marketing visibility. Over the last few years, Crombie has been successful with such conversions; examples include the redevelopment of the Aberdeen Mall in New Glasgow, N.S. into a business centre and conversion of the Loch Lomond Mall in Saint John, N.B. into a call centre. Other retail space has been successfully re-developed into new, state of the art call centre locations. We now have 23 call centres under lease.

In fiscal 2003, major projects included the completion of the re-development of the Carleton Mall in Woodstock, N.B. and the major expansion for Zellers, at the Fredericton Mall in Fredericton, N.B. In addition, we are currently re-developing retail shopping locations in Lower Sackville and Bridgewater, N.S. Management remains committed to the ongoing review and improvement in the portfolio.

While our development activities primarily consist of the re-development of existing properties and the purchase of new properties, we are also pleased with the progress of our new condominium project, the Martello, in downtown Halifax. This project is in the development stage and we have now pre-sold a significant number of the (pre-construction) units.

While our occupancy rate has remained stable at 92.7 percent, renewals have been transacted at higher net effective rates. We are pleased that our office occupancy remains well above the downtown averages for both Halifax and Moncton, two of the major office markets in Atlantic Canada. Our lease profile has been improved through the diligent efforts of our leasing team and a strong tenant relationship with leading Canadian retailers such as Sobeys, Wal-Mart, Canadian Tire, Sears, and Zellers. This combined with continued effective cost control, contributed to the improved financial performance in fiscal 2003.

The real estate group's financial performance has allowed management to continue to diversify and strengthen both the retail and commercial real estate portfolios. Subsequent to fiscal year-end, Crombie completed the purchase of a 114,000 square foot shopping plaza in Hamilton, Ontario. The acquisition of new properties in central Canada, the continued expansion of the self-storage business in Atlantic Canada and Ontario, and projects such as The Martello, will strengthen the stability and growth profile of our cash flow.

We are optimistic about the future of our real estate group and believe we have the strength in our people to continue to improve financial results while acquiring and developing additional assets and further improving the quality of the assets in the existing portfolio.



## INVESTMENTS

OUR INVESTMENT PORTFOLIO PROVIDES US WITH FINANCIAL FLEXIBILITY AND A READY POOL OF CAPITAL TO AUGMENT THE GROWTH IN OUR CORE OPERATING COMPANIES.

At fiscal year-end, Empire's investments carried a market value of \$318.7 million, consisting primarily of common equities valued at \$289.0 million and preferred shares and other investments valued at \$29.7 million. All of Empire's investments are listed on a recognized public exchange.

Empire continues to be committed to a liquid investment portfolio that offers a combination of yield and attractive growth characteristics. This has been a prudent strategy over the last three years in which equity markets have been generally weak. Over the last three years the compounded return on the portfolio of negative 0.8 percent has significantly outperformed equity indices and median equity manager performance.

The table below presents the return performance for Empire's non-equity accounted common equity investments relative to Canadian and U.S. equity benchmarks over each of the last three fiscal years, as well as on a two and three year compounded basis.

### Total Investment Return

	2001	2002	2003	2-year	3-year
Empire Portfolio	20.8%	11.9%	-27.8%	-10.1%	<b>-0.8%</b>
S&P/TSX Composite Index	-18.6%	4.9%	-17.6%	-7.0%	<b>-11.1%</b>
S&P 500 Index	-14.8%	1.4%	-30.7%	-16.2%	<b>-15.7%</b>

Fiscal 2003 investment return was negative 27.8 percent as a result of general market volatility and the under performance of our investment in Delhaize Le Lion ("Delhaize") common shares relative to the overall market. Delhaize is a food retailer operating in 10 countries on three continents. Despite the volatility in equity markets we continue to believe that over the long-term, equity market returns will be superior to either fixed income or money market investment returns.

As in the past we will continue to allocate capital from our investment portfolio to support the growth and development of our operating divisions and to enhance shareholder net asset value. Over the past three years we have allocated close to \$740 million from the investment portfolio for the following purposes: a) the March 2000 buyback of 13.0 million (split adjusted) Empire Class A common shares for \$220 million; b) the purchase of 7.6 million common shares of Sobeys in August through November 2000 for \$206 million to maintain Empire's 62 percent interest in Sobeys; c) the purchase in January 2001 of Empire's interest in Genstar for \$29 million; d) the redemption of Empire preferred shares in January 2001, totalling \$20 million; e) \$65 million for tax payments associated with realized gains on investment sales; and f) approximately \$200 million for the repayment of bank debt. Subsequent to year-end, in July 2003 Empire increased its ownership in Sobeys to approximately 64.5 percent.

Going forward we remain committed to prudently managing a high quality and liquid common equity investment portfolio. This provides added financial flexibility and a pool of capital that can grow. Our objective will be to generate superior investment return relative to the market indices and the median fund manager.



## OTHER OPERATIONS

EMPIRE THEATRES HAS DEVELOPED A STRONG REPUTATION AS A QUALITY ENTERTAINMENT DESTINATION. CONTINUED EXPANSION AND UPGRADING OF ITS FACILITIES HAS RESULTED IN INCREASED VALUE THROUGH CONSISTENT GROWTH IN CASH FLOW.

Wholly-owned Empire Theatres had another good year, posting new records for revenue and operating income. These strong results were a direct result of management's continued focus on customer satisfaction, the on-going modernization and expansion of existing theatre venues, improved operational efficiency, and most importantly, the availability of strong product quality.

As the largest movie exhibitor in Atlantic Canada with 141 screens in 22 locations, Empire Theatres continued to strengthen its competitive position through the modernization of existing cinemas and the replacement and expansion of smaller facilities.

During fiscal 2003, Empire Theatres opened a new Studio 7 theatre complex in Truro, N.S. and commenced construction of a Studio 7 in Lower Sackville, N.S. Renovations and modernization was completed in three locations: Dartmouth, N.S., Fredericton, N.B. and Bayer's Lake, N.S. As well, the Sydney, N.S. theatre was expanded by two screens. Subsequent to fiscal year-end, construction started on a remodeled Studio 10 in St. John, N.B. and an announcement was made on the development of a Studio 7 in Bridgewater, N.S.

Empire Theatres remains committed to providing its patrons with an enjoyable movie-going experience by offering modern stadium-style seating, exceptional theatre aesthetics, a broad concession assortment, and superior customer service. Since 1995, our movie-theatre operation has doubled its screen count, modernized its circuit, and strengthened its concession offering.

Empire Theatres has also started to diversify its operations outside of Atlantic Canada through a new joint venture with Landmark Cinemas, which has resulted in screen development opportunities in Western Canada.

The theatre industry continues to record steady increases in attendance and revenue. We expect that the industry will continue to grow as a result of a consistent supply of high-quality films, increases in studio marketing for new releases, and the upgrading of movie theatres.

## CORPORATE GOVERNANCE

The Empire Board of Directors oversees the management of the business affairs of the corporation, discharging its responsibilities either directly or through its committees. Among its numerous duties and responsibilities, Empire's Board:

- Oversees the strategic planning process, including approval of the strategic plan and corporate performance objectives;
- Selects, monitors the performance, and sets appropriate compensation for the CEO;
- Oversees the ethical, legal, and social conduct of the Company;
- Identifies principal risks and oversees the implementation of the systems required to manage them;
- Ensures succession planning for senior management is addressed; and
- Ensures integrity of internal control and management information systems.

The quality, composition, and effectiveness of the Board, both collectively and of its individual directors, are of fundamental importance. The Corporate Governance and Nominating Committee is charged with responsibility of assessing the effectiveness and performance of the committees of the Board and the Board as a whole. All new directors receive an extensive orientation upon joining the Board, including site tours, meetings with various levels of management, and review of educational materials, mandates, codes of conduct, policies and other relevant information.

The composition of the Board is such that management, significant shareholders, and independent shareholders (represented by unrelated directors) are all represented on Empire's Board. This ensures that the Board functions with a view to the best interests of the Company as a whole and appropriately balances the different interests in the Company. The Chairman of Empire's Board of Directors is not part of the management team, but rather functions independently from management. In addition, the Board meets at least quarterly without management or directors who are direct lineal descendants of J.W. Sobey, in sessions chaired by the Chair of the Corporate Governance and Nominating Committee.

All committees of the Board of Directors review the information required to perform committee work effectively. In certain cases, this will include the retention of independent consultants and advisors. In addition, the Board has adopted a policy that permits individual directors to engage outside advisors at the cost of the Company, provided the approval of the Corporate Governance and Nominating Committee is first obtained.

Empire's management and Board of Directors have established sound corporate governance practices. A detailed discussion of Empire's Corporate Governance Practices is contained in the Company's Management Proxy Circular issued in connection with the 2003 Annual General Meeting, to be held on September 10, 2003.

### COMMITTEES OF THE BOARD

Empire's Board of Directors has established three committees: the Corporate Governance and Nominating Committee, the Human Resources Committee, and the Audit Committee.

Members of the standing committees are non-management, the majority of whom the Board has determined to be unrelated as defined by the Toronto Stock Exchange's Corporate Governance Guidelines. Each committee operates according to a written mandate approved by the Board.

## THE CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

### **Key Responsibilities:**

- Developing the Company's approach to corporate governance issues, including responsibility for disclosure;
- Assessing the performance and effectiveness of the Board, its committees and individual directors;
- Recommending compensation of directors;
- Reviewing and approving the position description for the Chief Executive Officer and the mandates of the Chairman, Board of Directors and committees; and
- Recommending suitable candidates for election or appointment as directors.

Members: Robert P. Dexter (Chair), John L. Bragg, Sir Graham Day, E. Courtney Pratt, and J. William Sinclair

## THE HUMAN RESOURCES COMMITTEE

### **Key Responsibilities:**

- Reviewing the Company's management training and development programs;
- Monitoring succession planning;
- Ensuring compliance with occupational health and safety standards; and
- Recommending compensation for executive management.

Members: E. Courtney Pratt (Chair), John L. Bragg, Robert P. Dexter, James L. Moody, David F. Sobey, Donald R. Sobey, and Karl R. Sobey

## THE AUDIT COMMITTEE

- Consists of only unrelated directors.
- All members are financially literate and at least one member has accounting or related financial expertise.

### **Key Responsibilities:**

- Reviewing and assessing the Company's financial reporting practices and procedures;
- Reviewing the adequacy and reporting of its internal accounting controls and the independence of external auditors from management;
- Assessing risk management of the Company's assets;
- Reviewing and approving consolidated quarterly and annual financial statements, Management Discussion and Analysis, and related communications prior to submission to the Board;
- Communicating directly with internal and external auditors to discuss and review specific issues as appropriate; and
- Recommending to the Board external auditors to be proposed for appointment by the shareholders.

Members: James W. Gogan (Chair), Sir Graham Day, Peter C. Godsoe, Mary Mogford, and John R. Sobey

## BOARD OF DIRECTORS

**JOHN L. BRAGG<sup>3,5</sup>**

Collingwood, Nova Scotia  
Director since 1999.  
President and Co-CEO of  
Oxford Frozen Foods Ltd.



**SIR GRAHAM DAY<sup>1,5</sup>**

Hantsport, Nova Scotia  
Director since 1991.  
Counsel to Stewart McKelvey  
Stirling Scales and Chairman  
of Sobeys Inc.



**ROBERT P. DEXTER<sup>3,6</sup>**

Halifax, Nova Scotia  
Director since 1987.  
Chairman and Chief Executive  
Officer of Maritime Travel Inc.



**PETER C. GODSOE<sup>1</sup>**

Toronto, Ontario  
Director since 1993.  
Chairman and Chief Executive  
Officer of The Bank of  
Nova Scotia



**JAMES W. GOGAN<sup>2</sup>**

New Glasgow, Nova Scotia  
Director since 1972.  
Corporate Director.



**JAMES L. MOODY, JR<sup>3</sup>**

Cape Elizabeth, Maine  
Director Since 1998.  
Corporate Director.



**MARY MOGFORD<sup>1</sup>**

Newcastle, Ontario  
Director since 2002.  
Partner at Mogford  
Campbell Inc.



**E. COURTNEY PRATT<sup>4,5</sup>**

Toronto, Ontario  
Director since 1995.  
President and Chief Executive  
Officer of Toronto Hydro  
Corporation

1. Audit Committee Member

2. Audit Committee Chairman

3. Human Resources Committee Member

4. Human Resources Committee Chairman

5. Corporate Governance and Nominating Committee Member

6. Corporate Governance and Nominating Committee Chairman

**J. WILLIAM SINCLAIR<sup>5</sup>**

Pictou, Nova Scotia  
Director since 1980.  
Corporate Director.

**DAVID F. SOBEY<sup>3</sup>**

New Glasgow, Nova Scotia  
Director since 1963.  
Chairman Emeritus  
of Sobeys Inc.

**DONALD R. SOBEY<sup>3</sup>**

New Glasgow, Nova Scotia  
Director since 1963.  
Chairman of Empire  
Company Limited.

**JOHN R. SOBEY<sup>1</sup>**

Stellarton, Nova Scotia  
Director since 1979.  
Corporate Director.

**KARL R. SOBEY<sup>3</sup>**

Halifax, Nova Scotia  
Director since 2001.  
Corporate Director.

**PAUL D. SOBEY**

New Glasgow, Nova Scotia  
Director since 1993.  
President and Chief Executive  
Officer of Empire Company  
Limited

**ROBERT G. SOBEY**

Stellarton, Nova Scotia  
Director since 1998.  
Senior Vice-President,  
Merchandising and Marketing  
of Sobeys Atlantic



# OFFICERS

## OFFICERS OF EMPIRE COMPANY

Donald R. Sobey  
*Chairman*  
Paul D. Sobey  
*President and  
Chief Executive Officer*  
Paul V. Beesley  
*Senior Vice-President,  
Chief Financial Officer  
and Secretary*  
Stewart H. Mahoney  
*Vice-President,  
Treasury and Investor Relations*  
Carol A. Campbell  
*Vice-President,  
Risk Management*  
John G. Morrow  
*Vice-President and Comptroller*

## OFFICERS OF OPERATING COMPANIES

SOBEYS INC.  
Sir Graham Day  
*Chairman*  
William G. (Bill) McEwan  
*President and  
Chief Executive Officer*  
James M. Dickson  
*Executive Vice-President,  
Chief Development Officer  
and Secretary*  
R. Glenn Hynes  
*Executive Vice-President  
and Chief Financial Officer*  
Paul A. Jewer  
*Vice-President,  
Finance and Treasurer*  
L. Jane McDow  
*Assistant Secretary*

Michael G. Scott  
*President Operations  
of Sobeys Atlantic*

Marc Poulin  
*President Operations  
of Sobeys Quebec*  
Duncan F. Reith  
*President Operations  
of Sobeys Ontario*

J. Gary Kerr  
*Executive Vice-President  
and General Manager  
of Sobeys West*

François Vimard  
*Executive Vice-President*

## CROMBIE PROPERTIES LIMITED

Frank C. Sobey  
*Chairman*  
J. Stuart Blair  
*President and  
Chief Executive Officer*  
Allan K. MacDonald  
*Vice-President, Leasing*

Scott R. MacLean  
*Vice-President,  
Operations*

John G. Morrow  
*Vice-President,  
Finance and Secretary*

Paul W. Wigginton  
*Comptroller*

## EMPIRE THEATRES LIMITED

Stuart G. Fraser  
*President and  
Chief Executive Officer*  
Kevin J. MacLeod  
*Vice-President, Operations*

## DIRECTORS OF OPERATING COMPANIES

### SOBEYS INC.

Sir Graham Day  
*Chairman*  
William G. (Bill) McEwan  
*President and  
Chief Executive Officer*

John L. Bragg  
*Director, President and Co-CEO  
of Oxford Frozen Foods Ltd.*

Marcel Côté  
*Senior Partner of Secor Inc.*

Christine Cross  
*President of Christine Cross Ltd.*

Robert P. Dexter  
*Chairman and  
Chief Executive Officer of  
Maritime Travel Inc.*

Ronald V. Joyce  
*Director, Co-Founder and  
Senior Chairman of  
The TDL Group Limited*

Malen Ng  
*Past President and  
Chief Executive Officer  
of HydroOne Networks*

David F. Sobey  
*Chairman Emeritus*

Donald R. Sobey  
*Chairman of  
Empire Company Limited*

Frank C. Sobey  
*Chairman of  
Crombie Properties Limited*

John R. Sobey  
*Corporate Director*

Paul D. Sobey  
*President and  
Chief Executive Officer of  
Empire Company Limited*

Lawrence N. Stevenson  
*President and  
Chief Executive Officer  
of The Pep Boys - Manny,  
Moe & Jack*

## CROMBIE PROPERTIES LIMITED

Frank C. Sobey  
*Chairman*

J. Stuart Blair  
*President and  
Chief Executive Officer*

David G. Graham  
*President of  
Atlantic Developments Inc.*

David J. Hennigar  
*Chairman of Acadian  
Securities Inc.*

Kenneth C. Rowe  
*Chairman, President and  
Chief Executive Officer of  
IMP Group Ltd.*

John B. Roy  
*Vice-Chairman of  
Summit REIT*

David F. Sobey  
*Chairman Emeritus of  
Sobeys Inc.*

Donald R. Sobey  
*Chairman of  
Empire Company Limited*

John R. Sobey  
*Corporate Director*

Paul D. Sobey  
*President and Chief  
Executive Officer of  
Empire Company Limited*



WILLIAM G. MCEWAN  
*President and  
Chief Executive Officer  
of Sobeys Inc.*



J. STUART BLAIR  
*President and  
Chief Executive Officer  
of Crombie Properties Ltd.*



STUART G. FRASER  
*President and  
Chief Executive Officer  
of Empire Theatres Ltd.*



PAUL V. BEESLEY  
*Senior Vice-President,  
Chief Financial Officer  
and Secretary of  
Empire Company*



STEWART H. MAHONEY  
*Vice-President,  
Treasury and Investor  
Relations of  
Empire Company*

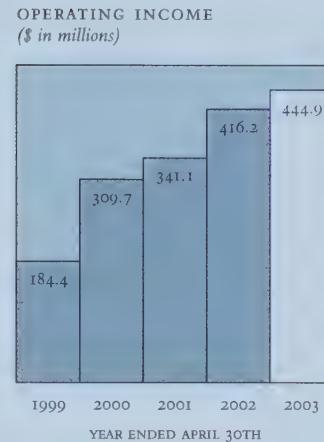
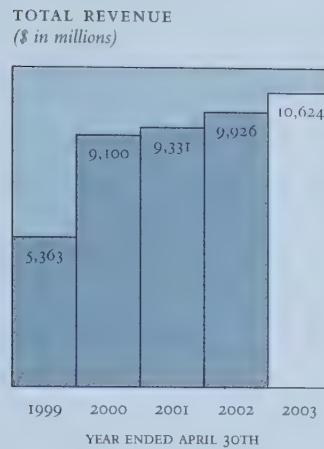


CAROL A. CAMPBELL  
*Vice-President,  
Risk Management  
of Empire Company*



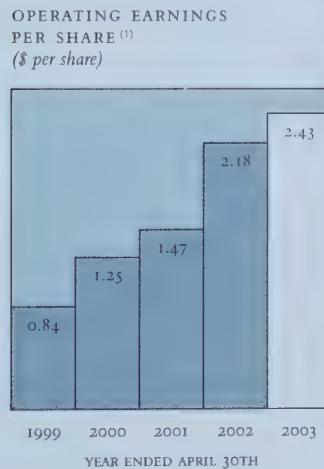
JOHN G. MORROW  
*Vice-President and  
Comptroller of  
Empire Company*

## Management's Discussion & Analysis



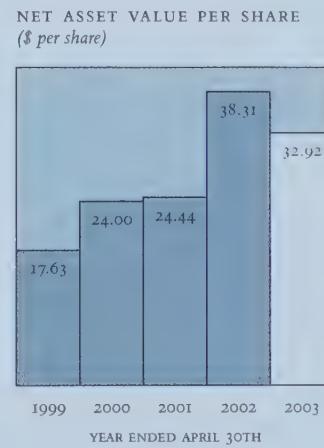
**Total Revenue** Revenue increased 7 percent in fiscal 2003, primarily the result of continued growth in our food distribution and real estate businesses.

**Operating Income** Operating income increased 7 percent in fiscal 2003, reaching \$444.9 million.



<sup>(1)</sup> earnings before net capital gain (loss) and other items, excluding goodwill amortization.

**Operating Earnings Per Share** Operating earnings per share, before goodwill amortization increased 11 percent to \$2.43 a share, compared to \$2.18 last year.



**Net Asset Value Per Share** Net asset value per share of \$32.92 has grown 87 percent during the past four years.

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## Management's Discussion & Analysis

### OVERVIEW OF THE BUSINESS

Empire Company Limited ("Empire" or the "Company") is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food distribution, real estate, investments and other operations. With assets in excess of \$4.5 billion, Empire employs more than 35,000 people directly and through its subsidiaries.

**Food Distribution** Empire's food distribution operations are carried on through its 62 percent ownership in Sobeys Inc. ("Sobeys"). Subsequent to year-end, in July 2003 Empire increased its ownership of Sobeys to approximately 64.5 percent. Sobeys is one of two national retail grocery and food distributors. With sales of \$10.4 billion, Sobeys owns or franchises more than 1,300 stores and operates in all 10 provinces under retail banners that include Sobeys, Garden Market IGA, IGA extra, IGA, and Price Chopper.

At year-end, Sobeys operated 413 corporate stores and 913 franchised stores. Of the corporate stores, 120 operate under the Sobeys banner and 71 stores operate under the IGA banner, including IGA Garden Market and IGA extra banners. The largest franchised banner is IGA, with 471 franchised stores. The proportion of total retail store square footage by region across Canada is as follows: 18 percent in Western Canada, 32 percent in Ontario, 28 percent in Quebec, and 22 percent in Atlantic Canada.

**Real Estate** Empire's real estate operations are focussed on the acquisition, development, and management of a portfolio of properties primarily located in Atlantic Canada. At the end of fiscal 2003, real estate operations had 12.2 million square feet under ownership. Commercial real estate operations are conducted through two wholly-owned companies, Crombie Properties Limited ("Crombie") and Sobeys Leased Properties Limited ("SLP"), while residential land development is primarily conducted through the Company's 35 percent ownership position in Genstar Development Partnership ("Genstar"). Genstar is a residential land development company operating primarily in high growth communities in Ontario and Western Canada.

Today, 87 percent of the gross leasable area in our real estate portfolio is retail space, of which 40 percent is leased to Empire-affiliated companies. The retail segment includes 32 shopping centres. Our real estate portfolio also includes nine office properties, representing 14 percent of gross leaseable area.

**Investments & Other Operations** The third component of Empire's business is its investments and other operations. Empire's investments consist of a portfolio of short and long-term equity investments. At fiscal year-end, Empire's investments carried a market value of \$318.7 million, consisting of common equities valued at \$289.0 million, preferred shares valued at \$27.3 million, and other investments at \$2.4 million. All of Empire's investments are listed on a recognized public stock exchange.

Other operations primarily consist of wholly-owned Empire Theatres Limited ("Empire Theatres"), the leading movie exhibitor in Atlantic Canada with 141 screens in 22 locations.

### A FOCUS ON GROWING LONG-TERM SUSTAINABLE VALUE

Management's primary objective is to maximize the long-term sustainable value of Empire for its shareholders. We are committed to enhancing the worth of the Company's net assets, and in turn, having that value reflected in Empire's share price.

Empire's management intends to continue to direct its energy and capital towards growing the long-term sustainable value of each of its core operating businesses – food distribution and real estate. While these are excellent businesses in their own right, the diversification they offer Empire by both business line and by market area is an additional source of strength. Together, these core businesses reduce risk and volatility, thereby contributing to consistency in overall earnings growth. Going forward, we will continue to direct our resources towards the most promising opportunities within these businesses, in order to maximize our potential.

## Management's Discussion & Analysis

At the same time, our investment portfolio gives us the opportunity to augment earnings while we are waiting to make further investment in our core operations. Historically we have been successful in generating investment returns in excess of the Company's cost of capital and well in excess of returns that would otherwise have been generated by investing in money market investments.

### SCOPE OF ANALYSIS

The following is a discussion and analysis of the consolidated financial position and results of operations of Empire for the fiscal year ended April 30, 2003. This discussion may contain forward-looking statements about the future performance of the Company. These statements are based on management's assumptions and beliefs in light of the information herein. These forward-looking statements are subject to uncertainties and risks including but not limited to general business and economic conditions in the Company's operating regions; pricing pressures and other competitive factors; results of the Company's ongoing efforts to reduce costs; and the availability and terms of finance. Consequently, actual results may vary significantly from those included in or implied by forward-looking statements.

Additional financial information has been filed electronically with the various securities commissions in Canada through SEDAR.

The following four measures included in this Management's Discussion & Analysis do not have a standardized meaning under Canadian Generally Accepted Accounting Principles ("GAAP") and therefore, should not be compared to similarly titled measures presented by other publicly traded companies: earnings before interest, taxes, depreciation and amortization ("EBITDA"); operating earnings; funds from operations; and net asset value. The Company includes EBITDA and funds from operations because it believes certain investors use these measures as a means of measuring financial performance. EBITDA is calculated as operating income plus depreciation, while funds from operations is calculated as net earnings, before net capital gain (loss) and other items plus depreciation. Operating earnings used in this report is net earnings before net capital gain (loss) and other items and before gain on sale of discontinued operations. The Company believes that excluding non-operating gains and losses from its earnings, provides a clearer depiction of the Company's year-over-year operational performance. Net asset value is calculated as management's estimate of the market value of its assets less debt, thereby serving as an estimate for the intrinsic value of the Company's shareholders equity.

This document should be reviewed in conjunction with the Audited Consolidated Financial Statements and notes that relate to them for the twelve-month period ended April 30, 2003.

## Management's Discussion &amp; Analysis

## CONSOLIDATED OPERATING RESULTS

## Consolidated Financial Results Summary

Years Ended April 30th (\$ in millions, except per share data)	2003	2002	Percent Change
Revenue			
Food distribution	\$ 10,414.5	\$ 9,732.5	7.0%
Real estate, net of inter-segment	149.2	137.8	8.3%
Other operations	60.5	56.2	7.7%
	<b>10,624.2</b>	9,926.5	7.0%
Operating income			
Food distribution	324.7	295.4	9.9%
Real estate	103.8	100.6	3.2%
Investments and other operations	16.4	20.2	(18.8)%
	<b>444.9</b>	416.2	6.9%
Interest expense	92.9	111.6	(16.8)%
Income taxes <sup>1</sup>	124.3	117.1	6.1%
Minority interest <sup>2</sup>	67.8	54.5	24.4%
Earnings from continuing operations before net capital gain (loss), other items and goodwill amortization	<b>159.9</b>	133.0	20.2%
Earnings from discontinued operations before goodwill amortization	-	10.9	
Earnings before net capital gain (loss), other items and goodwill amortization	<b>159.9</b>	143.9	11.1%
Less goodwill amortization	-	11.7	
Earnings before net capital gain (loss) and other items	<b>159.9</b>	132.2	21.0%
Net capital gain (loss) and other items	(6.0)	13.7	(143.8)%
Gain on the sale of discontinued operations	-	50.0	
Net earnings	<b>\$ 153.9</b>	\$ 195.9	(21.4)%

<sup>1</sup> Includes \$120.4 (2002 \$104.8) income tax expense from income statement plus \$3.9 (2002 \$12.3) income tax recovery from capital loss and other items.

<sup>2</sup> 2002, includes minority interest of \$50.0 from income statement plus \$4.5 from capital gain and other items.

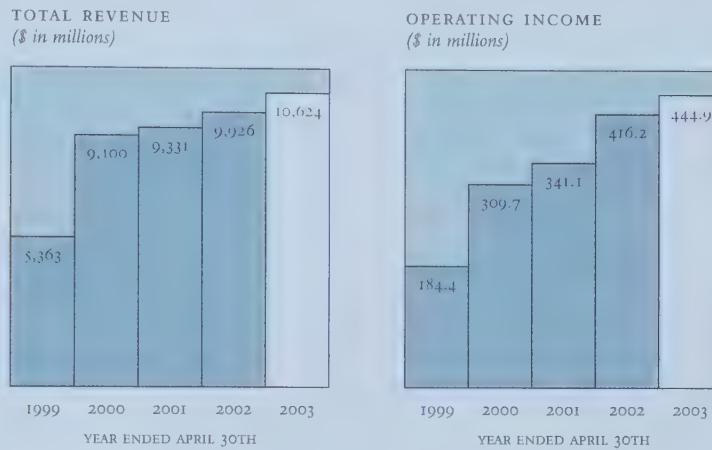
## Per Share, basic and diluted

Earnings before net capital gain (loss), other items and goodwill amortization	\$ 2.43	\$ 2.18	11.5%
Earnings before net capital gain (loss) and other items	<b>2.43</b>	2.00	21.5%
Net capital gain (loss) and other items	(0.09)	0.21	(142.9)%
Gain on sale of discontinued operations	-	0.76	
Net earnings	<b>\$ 2.34</b>	\$ 2.97	(21.2)%

**Revenue** Revenue increased 7.0 percent in fiscal 2003 to \$10.62 billion, an increase of \$698 million over fiscal 2002 as a result of growth in each of our operating companies: food distribution, real estate, and other operations. Food distribution revenues increased \$682 million or 7.0 percent, with same-store sales for all food distribution banners (including expanded stores) growing by 3.2 percent in fiscal 2003. Growth in real estate revenues totalled \$11.4 million or 8.3 percent, while other operations recorded revenue growth of 7.7 percent, primarily as a result of strong revenue growth at Empire Theatres.

## Management's Discussion &amp; Analysis

**Operating Income** In fiscal 2003, operating income reached \$444.9 million compared to \$416.2 million in the prior year. The increase was primarily attributable to growth in operating income in the food distribution and real estate businesses. With respect to investments, net of corporate expense and other operations, Empire recorded a decrease in operating income of \$3.8 million from the prior year. This was largely the result of a \$2.4 million reduction in equity earnings contribution from Wajax Limited ("Wajax").



**Interest Expense** For the year ended April 30, 2003, interest expense amounted to \$92.9 million, a 16.8 percent reduction from the \$111.6 million expensed in fiscal 2002. Interest on long-term debt declined \$14.1 million, or 13.6 percent, while interest expense on short-term debt declined \$4.6 million or 60.5 percent. The decrease was due to a combination of lower borrowing levels and lower borrowing rates. The majority of the Company's debt is at fixed rates and therefore there is little exposure to interest rate risk from fluctuating short-term interest rates.

**Income Taxes** The fiscal 2003 effective tax rate was 35.3 percent, compared to 38.4 percent for fiscal 2002. The year-over-year change is primarily a result of reduced statutory tax rates. Total income tax expense for fiscal 2003 increased to \$120.4 million versus \$104.8 million recorded last year, as higher taxable earnings in fiscal 2003 more than offset the effect of the lower effective tax rate.

**Minority Interest** For the year ended April 30, 2003, minority interest was \$67.8 million, an increase of \$13.3 million or 24.4 percent when including minority interest from capital gain and other items last year. The increase over last year is attributed to the growth in Sobeys earnings. Subsequent to year-end, in July 2003 Empire purchased an additional 2.5 percent interest in Sobeys, resulting in an ownership level of approximately 64.5 percent. As a result, the minority interest percentage will be reduced from approximately 38 percent to 35.5 percent in fiscal 2004. Management is confident that the increased participation in Sobeys earnings in fiscal 2004 will more than offset the funding cost associated with the increase in the Sobeys ownership position.

**Goodwill Charges** Consistent with the new accounting standard issued by the Canadian Institute of Chartered Accountants ("CICA") on goodwill and other intangible assets, effective May 1, 2002, Empire discontinued goodwill amortization.

Goodwill charges for fiscal 2002 were \$11.7 million, which included \$2.2 million from discontinued operations.

**Discontinued Operations** On March 30, 2002, Sobeys completed the sale of substantially all of the assets of its SERCA Foodservice ("SERCA") business to SYSCO Corp. As a result, the fiscal 2002 results from operations of SERCA have been accounted for as a discontinued operation.

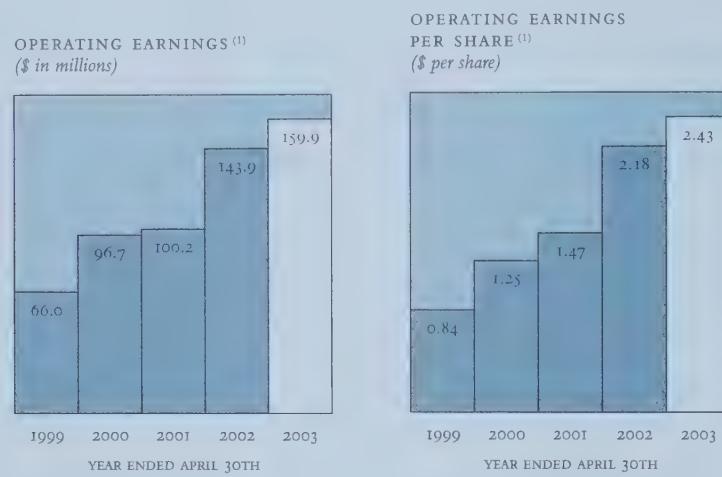
**Operating Earnings** For the fiscal year ended April 30, 2003, Empire recorded operating earnings (earnings before net capital gain (loss) and other items) of \$159.9 million (\$2.43 per share) versus operating earnings last year of \$143.9 million (\$2.18 per share) after adjusting for the change in the accounting treatment of goodwill, an 11.1 percent increase. This improvement was driven by sales growth, improved operating income performance, and reduced interest expense partially offset by higher income taxes and minority interest.

## Management's Discussion &amp; Analysis

**Gain on Sale of Discontinued Operations** The gain on sale of discontinued operations (after-tax) of \$50.0 million or \$0.76 per share recorded in fiscal 2002 represents Empire's share of the gain on the sale of SERCA.

**Net Capital Gain (Loss) and Other Items** Net capital loss and other items totalled \$6.0 million in fiscal 2003, as compared to a \$13.7 million net capital gain and other items recorded in fiscal 2002. During fiscal 2003, the Company realized a net capital loss from the sale of investments, partially offset by a net capital gain recorded by the real estate division on disposal of properties.

**Net Earnings** Net earnings were \$153.9 million in fiscal 2003, as compared to \$195.9 million in fiscal 2002. Adjusting for the net impact of goodwill amortization in fiscal 2002 of \$11.7 million, a year-over-year change in net capital gain (loss) and other items of \$19.7 million, and the gain on the sale of discontinued operations last year of \$50.0 million, results in a year-over-year increase in earnings of \$16.0 million or 11.6 percent.



<sup>(1)</sup> earnings before net capital gain (loss) and other items, excluding goodwill amortization.

**Financial Information by Quarter** The following table summarizes key operating results by quarter for the last eight quarters:

(in millions, except per share information)	April 2003	Jan. 2003	Oct. 2002	July 2002	April 2002	Jan. 2002	Oct. 2001	July 2001
Revenue	\$ 2,624.7	\$ 2,643.6	\$ 2,664.9	\$ 2,687.3	\$ 2,478.8	\$ 2,484.0	\$ 2,474.4	\$ 2,489.3
Operating income	110.4	107.6	111.7	115.2	108.3	108.5	101.8	97.6
Operating earnings <sup>(1)</sup>	41.8	39.3	39.0	39.8	35.2	35.3	31.4	30.3
Net capital gain (loss) and other items	(5.8)	-	(0.2)	-	(16.3)	0.8	10.9	18.3
Gain on sale of discontinued operations	-	-	-	-	50.0	-	-	-
Net earnings	\$ 36.0	\$ 39.3	\$ 38.8	\$ 39.8	\$ 68.9	\$ 36.1	\$ 42.3	\$ 48.6
<b>Per Share Information, basic and diluted</b>								
Operating earnings <sup>(1)</sup>	0.64	0.60	0.59	0.60	0.53	0.53	0.48	0.46
Net capital gain (loss) and other items	(0.09)	-	-	-	(0.25)	0.02	0.16	0.28
Gain on sale of discontinued operations	-	-	-	-	0.76	-	-	-
Net earnings	\$ 0.55	\$ 0.60	\$ 0.59	\$ 0.60	\$ 1.04	\$ 0.55	\$ 0.64	\$ 0.74
Weighted average number of shares outstanding	65.8	65.8	65.8	65.8	65.7	65.7	65.7	65.7

<sup>(1)</sup> earnings before net capital gain (loss) and other items.

**OPERATING PERFORMANCE & OUTLOOK BY SEGMENT****FOOD DISTRIBUTION****Key Highlights**

- Sobeys achieved top line sales growth of 7.0 percent and same-store sales growth of 3.2 percent (including expanded stores).
- EBITDA as a percentage of sales improved to 4.32 percent or 23 basis points from the previous fiscal year.
- Total capital expenditures of \$411 million (including franchisee and third party spending, total capital-wide expenditures of \$546 million).
- Launched Ready to serve™ in the Ontario and Atlantic Canada Sobeys banner stores, an integrated end-to-end product and service marketing initiative.
- Introduced its new “prototype” Sobeys store in Ontario and Atlantic Canada designed to accent the overall Ready to serve™ initiative, while also reducing construction cost.
- Sobeys continued its focus on streamlining the number of retail banners in key markets by converting 17 Garden Market IGAs to the Sobey banner in Ontario and by launching the Price Chopper banner in Atlantic Canada through the conversion of Lofood stores and a number of Foodland stores.

**Revenue** In fiscal 2003, Sobeys achieved sales of \$10.4 billion, an increase of \$682 million or 7.0 percent over fiscal 2002. Sobeys recorded increased sales in all operating regions, despite the effects of increased competitive activity and a five-week labour disruption at its Whitby, Ontario distribution centre, which ended in early fiscal 2004.

Sobeys' same-store sales increased 3.2 percent (2.1 percent excluding expanded stores) compared to 4.9 percent (3.5 percent excluding expanded stores) in fiscal 2002. Sobeys continues to focus on the significant opportunity to increase sales per square foot across its 22.6 million square foot retail network. Increased merchandising activity, improved marketing, and enhanced in-store promotional programs have targeted a larger share of current customers' requirements, by continuing to increase transaction size with its existing customer base.

Sobeys' also increased sales by expanding store square footage by 4.0 percent. In conjunction with the addition of new retail square footage, Sobeys continues to attract new customers and sales with right-sized stores, a focus on food, driven by fresh, and a well-communicated, well-executed total product and service offering.

Food inflation levels remained low during fiscal 2003 and have declined in comparison with last year. Some grocery-based commodity pricing increases were primarily offset with some fresh produce cost deflation.

The company expects continued sales growth in fiscal 2004.

**Operating Income** Earnings before interest and taxes (“operating income” or “EBIT”) contribution by the food division amounted to \$324.7 million in fiscal 2003, a 9.9 percent increase over last year. Excluding the impact of the Whitby labour disruption, operating income contribution would have been \$336.0 million in fiscal 2003, a 13.7 percent increase over last year.

Fiscal 2003 EBITDA contribution to Empire totalled \$448.7 million, an increase of \$52.3 million or 13.2 percent over the \$396.4 million recorded last year.

The labour disruption at the Whitby distribution centre in the fourth quarter of fiscal 2003 had an \$11.3 million negative, impact on fiscal 2003 EBITDA and pre-tax earnings. This resulted from costs to implement a distribution contingency plan, including higher distribution and logistics costs to service stores through alternate facilities and direct to store deliveries, lost sales to franchise stores, and changes in sales and promotional mix.

As a percentage of sales, Sobeys reported EBITDA margin improved to 4.32 percent (4.43 percent excluding the Whitby labour disruption) from 4.09 percent last year, an increase of 23 basis points.

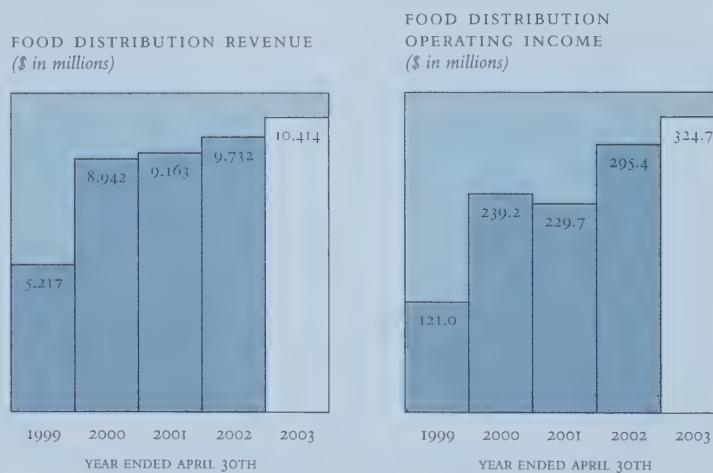
## Management's Discussion & Analysis

The improvement in margin percentage was primarily due to the execution of a series of efficiency initiatives to reduce waste and improve processes in all areas of the business, with the objective of securing sustained cost savings. Continuous improvement in marketing and merchandising programs also contributed to the higher margins.

The cost per case shipped continued to decline throughout fiscal 2003, as distribution and logistics initiatives improved productivity and service levels. The implementation of a common distribution centre replenishment system was adopted from the Western region's "best practice". Beyond the improved service levels and purchase price optimization that this system provides Sobeys, significant annualized managed working capital improvements were secured as a result of the implementation of these new replenishment processes and tools. Sobeys also began implementation of voice pick technology in its distribution centres to improve selection accuracy and productivity. The technology enhances the order selection process, substantially reducing the frequency of selection errors. This technology enables improved retail store in-stock positions and therefore customer satisfaction.

Other improvements were realized through initiatives that included, but were not limited to, optimization of the employee payroll processing system, system-wide energy efficiency and procurement initiatives, realignment of telecommunications contracts, streamlining of advertising flyer production, and reduction of selling and administrative expenses.

The continuous focus on disciplined cost management and reduction, distribution efficiencies, migration of best practices across Sobeys' four regions, banner rationalization, and the optimization of Sobeys' merchandising program are expected to further improve operating margin in fiscal 2004.



**Operating Earnings** In fiscal 2003, Sobeys' contribution to Empire's operating earnings reached \$110.4 million compared to \$98.5 million (excluding goodwill amortization) last year, a 12.1 percent increase.

Sobeys reported operating earnings per share of \$2.72 for fiscal 2003. At the end of fiscal 2002, Sobeys set an operating earnings target of between \$2.74 and \$2.84 per share. This reflected 12 to 16 percent growth on an operating earnings base, excluding goodwill amortization, of \$2.45 per share in fiscal 2002. This target was not met as a result of the Whitby labour disruption in the fourth quarter of fiscal 2003.

Operating earnings are expected to grow between 12 and 16 percent in fiscal 2004 as a result of continuing progress on the various initiatives discussed above.

**Gain on the Sale of Discontinued Operations** During the fourth quarter of fiscal 2002, Sobeys reported a pre-tax gain of \$120.2 million from the sale of substantially all the assets of SERCA (see note 2 to the consolidated financial statements). The after-tax gain from this sale equaled \$80.7 million. Empire's share of this transaction amounted to \$50.0 million after-tax and minority interest, which was recorded in the fourth quarter of fiscal 2002.

**Net Capital Loss and Other Items** In fiscal 2002, a review of certain redundant real estate assets by Sobeys determined that a write-down in book value was necessary to reflect these assets at their approximate liquidation value; accordingly, a \$9.9 million reduction in the carrying value of these assets was recorded.

## Management's Discussion & Analysis

During the fourth quarter of fiscal 2002, Sobeys requested an updated third party evaluation of its Employee Future Benefit Obligation. This evaluation, using current information, identified a necessary \$9.5 million adjustment to the initial 2000 estimate relating to the future provision of employee benefits to former Oshawa Group Limited employees.

These two items resulted in a net capital loss to Empire of \$7.3 million.

**Net Earnings** Sobeys net earnings were \$179.0 million in fiscal 2003, as compared to \$210.6 million in fiscal 2002. Removing the net impact of the gain on sale of discontinued operations and capital loss and other items, and excluding goodwill amortization from fiscal 2002 results, earnings increased 10.8 percent in fiscal 2003.

The food division's contribution to Empire's consolidated net earnings amounted to \$110.4 million versus \$129.5 million last year, a decrease of 14.7 percent. Adjusting for goodwill amortization, and capital gain and other items, the food division contributed \$110.4 million in earnings versus \$98.5 million last year, a 12.1 percent increase.

**Outlook** Sobeys' management believes the company is well-positioned for growth throughout fiscal 2004, with improved marketing and merchandizing programs, and the continuous focus on disciplined cost management to fuel sales and earnings momentum.

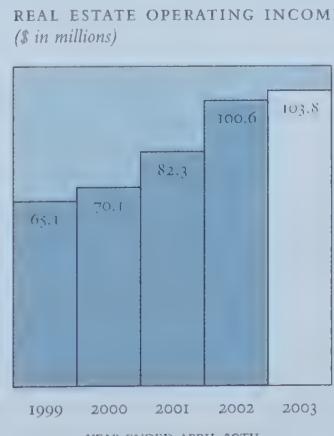
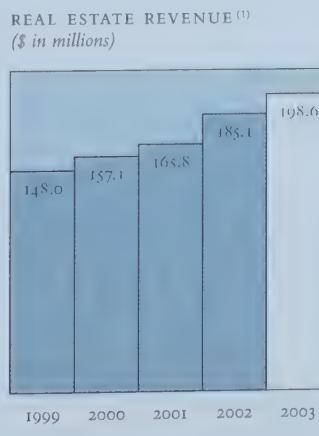
### REAL ESTATE

#### Key Highlights

- Continued strong occupancy rate of 92.7 percent, relatively unchanged from last year.
- Funds from operations increased 11.4 percent to \$53.7 million.
- The real estate portfolio was strengthened and diversified through the redevelopment of existing properties, expansion of residential development through Genstar, the new Martello condominium project, and targeted anchor development.
- Today, 87 percent of the 12.2 million square feet in our real estate portfolio is retail space, of which 40 percent is leased to Empire-affiliated companies.

**Revenue** Fiscal 2003 revenue from real estate operations increased 7.3 percent to \$198.6 million from \$185.1 million last year. The growth in real estate revenue is attributed to revenue growth at Genstar and Crombie. Revenue growth achieved by Crombie was the result of strong lease renewal activity and the benefits of the re-development activities. Genstar's revenue growth was driven by strong lot sales in Western Canada. While we expect continued growth in Genstar's key markets, we do not expect lot sales to continue at the same pace over the next year.

**Operating Income** The real estate division recorded operating income of \$103.8 million in fiscal 2003, an increase of \$3.2 million over fiscal 2002. This performance is the result of a strong contribution from Genstar, successful re-development activities, and higher net effective rental rates and lower costs (as reflected by a 183 basis point reduction in the operating cost to revenue ratio from the prior year). The real estate operation contributed 23.3 percent of Empire's total operating income in fiscal 2003.



<sup>(1)</sup> Revenue is before inter-segment elimination.

## Management's Discussion & Analysis

**Net Capital Gain and Other Items** In fiscal 2003, a net capital gain of \$0.4 million was realized by the real estate division versus net capital gain and other items of \$6.3 million in the previous fiscal year. The year-over-year change is primarily a result of a \$0.4 million gain in fiscal 2003 generated from the disposal of properties, a net capital gain associated with Genstar's bulk land sales in the fourth quarter of fiscal 2002, and a net capital loss of \$3.9 million associated with the write-down of certain properties in fiscal 2002.

**Net Earnings** Real estate's contribution to Empire's fiscal 2003 net earnings was \$38.9 million, a decrease of \$1.9 million from the \$40.8 million recorded in fiscal 2002. The decline is principally the result of the aforementioned capital gains recorded in fiscal 2002, partially offset by improved operating income earned in fiscal 2003.

Funds from operations (net income plus depreciation) increased 11.4 percent to \$53.7 million from \$48.2 million last year, as a result of improved operating earnings performance.

**Outlook** We are currently experiencing softness in our retail leasing activity, however renewals have been strong. Empire's real estate management group expects overall retail occupancy levels to improve during fiscal 2004 as a result of the diligence of our leasing team and improving economic conditions in Atlantic Canada.

While pleased with the performance of Genstar to date, we do not expect that the level of residential activity will continue at the same pace through fiscal 2004.

During fiscal 2004, Empire's real estate management group will continue its policy of maximizing and prudently reinvesting cash flow to further strengthen and diversify its portfolio of residential and commercial properties.

### INVESTMENTS AND OTHER OPERATIONS

#### Key Highlights

- Empire's common equity investments generated a negative 27.8 percent return in fiscal 2003 as a result of market volatility and the under-performance of the Company's investment in Delhaize common shares. Three-year return performance of negative 0.8 percent compares favourably with negative 11.1 percent for the TSX Composite index and negative 15.7 percent for the S&P 500 index.
- Net capital losses of \$6.4 million were realized in fiscal 2003 as a result of the sale of common equity investments in the fourth quarter.
- Empire Theatres has started to diversify its operations outside of Atlantic Canada through a joint-venture arrangement with Landmark Cinemas of Canada Limited, which has resulted in four locations to date.
- During fiscal 2003, Empire Theatres opened one new theatre complex in Atlantic Canada and completed renovations or expansions in three other locations.

**Portfolio Value at April 30, 2003** Empire's investment portfolio carried a market value of \$318.7 million at April 30, 2003, on a cost base of \$387.4 million, resulting in an unrealized loss of \$68.7 million. At year-end, the investment portfolio consisted of:

#### Investment Portfolio

(\$ in millions Canadian)	Market	Cost	Percent of
	Value		Portfolio (based on market)
<b>Non-equity accounted investments</b>			
Canadian Common Equities	\$ 150.1	\$ 144.5	47.1%
U.S. Common Equities	57.4	68.8	18.0%
Delhaize Le Lion	51.7	102.6	16.2%
Preferred Shares & Other	29.7	30.4	9.3%
<b>Equity accounted investments</b>			
Wajax Limited	29.8	41.1	9.4%
<b>Total Investments</b>	<b>\$ 318.7</b>	<b>\$ 387.4</b>	<b>100.0%</b>

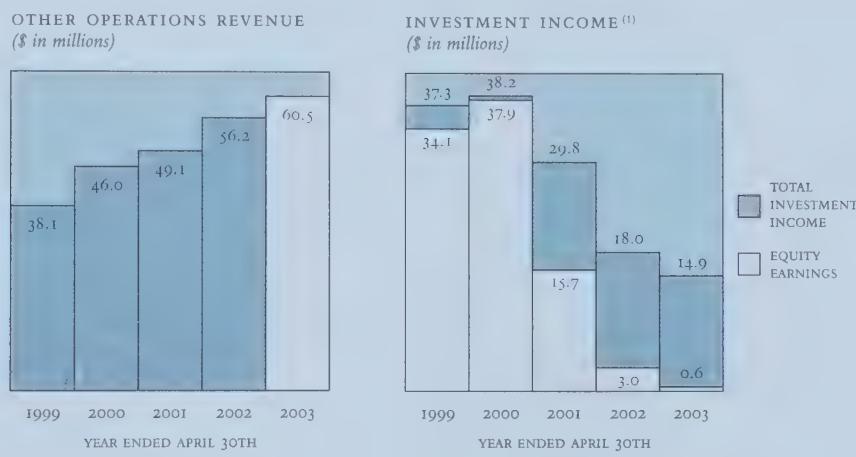
## Management's Discussion &amp; Analysis

Empire's direct debt matched to these investments equaled \$61 million at year-end, equivalent to 19 percent of total investment market value. Management considers a ratio of debt to investment value of no greater than 35 percent as prudent.

**Revenue** Investments and other operations' revenue, primarily generated by Empire Theatres, reached \$60.5 million versus \$56.2 million last year. Revenue growth at Empire Theatres is primarily attributable to the on-going modernization of existing locations and an increase in the number of screens in operation. At April 30, 2003, Empire Theatres had 141 screens in operation versus 135 at April 30, 2002.

**Operating Earnings** Investment income declined by \$3.1 million to \$14.9 million in fiscal 2003. The decrease is a result of a \$2.4 million reduction in equity accounted earnings from Wajax and a decrease in dividend income of \$0.7 million from non-equity accounted investments.

Other operations' contribution to Empire's operating earnings increased by \$0.5 million or 10.2 percent from the prior year. This increase is primarily the result of revenue growth of 7.7 percent and effective expense control at Empire Theatres.



<sup>(1)</sup> The decline in equity earnings is related to the sale of Empire's investment in Hannaford Bros. Co. on July 28, 2000.

**Net Capital Gains (Losses) Realized from Investment Sales** In fiscal 2003, net capital losses of \$6.4 million were generated from the sale of investments, as compared to net capital gains of \$32.9 million realized in the previous fiscal year. Investment sales in both years consist primarily of the sale of various common equity investments.

**Net Earnings** Investments and other operations' (net of corporate expenses) contributed \$11.0 million to Empire's consolidated operating earnings, relatively unchanged from last year's \$10.9 million contribution. The decline in investment income from last year was offset by a reduction in corporate income tax expense and increased contribution from Empire Theatres operations.

**Outlook** Investment income is expected to be relatively unchanged in fiscal 2004 as a result of improved performance at Wajax offset by a reduction in dividend income from investments. Dividend income is expected to decline largely as a result of reduced portfolio size (investments were sold in the fourth quarter to reduce bank loans), as well as a lower average dividend yield on portfolio investments.

We do not manage our portfolio with a focus on realizing capital gains or losses. Instead, our objective is to generate a total investment return in excess of the appropriate investment benchmark return.

Growth in unrealized capital gains will primarily depend on the performance of equity markets, which we believe will continue to remain volatile. In light of the portfolio's combination of yield and attractive growth characteristics we are confident that the investment portfolio is well positioned to outperform over the longer-term returns that could be generated from fixed income or money market investments.

## Management's Discussion &amp; Analysis

With respect to Empire Theatres' outlook, we recognize that future growth is highly dependent on a steady supply of quality product. Based on the quality of film releases expected in fiscal 2004, an experienced management team, and planned screen development, we look forward to continued growth in this business.

## FOURTH QUARTER RESULTS

The following tables provides a summary of Empire's fourth quarter results:

Years Ended April 30 (\$ in millions, except per share data)	2003	2002	Percent Change
<b>Revenue</b>			
Food distribution	<b>\$ 2,568.5</b>	\$ 2,424.3	5.9%
Real estate, net of inter-segment	<b>43.6</b>	40.6	7.4%
Other operations	<b>12.6</b>	13.9	(9.4)%
	<b>2,624.7</b>	2,478.8	5.9%
<b>Operating income</b>			
Food distribution	<b>75.1</b>	74.7	0.5%
Real estate	<b>32.8</b>	31.3	4.8%
Investments and other operations	<b>2.5</b>	2.3	8.7%
	<b>110.4</b>	108.3	1.9%
Interest expense	<b>23.6</b>	25.9	(8.9)%
Income taxes <sup>1</sup>	<b>29.6</b>	32.4	(8.6)%
Minority interest <sup>2</sup>	<b>15.4</b>	14.3	7.7%
Earnings from continuing operations before net capital gain (loss), other items and goodwill amortization	<b>41.8</b>	35.7	17.1%
Earnings from discontinued operations before goodwill amortization	<b>-</b>	2.3	-
Earnings before net capital gain (loss), other items and goodwill amortization	<b>41.8</b>	38.0	10.0%
Less goodwill amortization	<b>-</b>	2.8	-
Earnings before net capital gain (loss) and other items	<b>41.8</b>	35.2	18.8%
Net capital loss and other items	<b>(5.8)</b>	(16.3)	64.4%
Gain on the sale of discontinued operations	<b>-</b>	50.0	-
Net earnings	<b>\$ 36.0</b>	\$ 68.9	(47.8)%

<sup>1</sup> Includes \$26.4 (2002 \$20.7) income tax expense from income statement plus \$3.2 (2002 \$11.7) income tax recovery from capital loss and other items.

<sup>2</sup> 2002, includes minority interest of \$9.8 from income statement plus \$4.5 from capital gain and other items.

## Per Share, basic and diluted

Earnings before net capital gain (loss), other items and goodwill amortization	<b>\$ 0.64</b>	\$ 0.58	10.3%
Earnings before net capital gain (loss) and other items	<b>0.64</b>	0.53	20.8%
Net capital loss and other items	<b>(0.09)</b>	(0.25)	(64.0)%
Gain on sale of discontinued operations	<b>-</b>	0.76	-
Net earnings	<b>\$ 0.55</b>	\$ 1.04	(47.1)%

**Consolidated Financial Results** Fourth quarter revenue of \$2.62 billion versus \$2.48 billion last year represented a \$146 million or 5.9 percent increase. Food distribution operations reported revenue of \$2.57 billion, an increase of 5.9 percent over the fourth quarter last year. Real estate reported revenue growth of 7.4 percent, while other operations reported a decline in revenue in the fourth quarter of \$1.3 million from the fourth quarter of fiscal 2002.

## Management's Discussion & Analysis

Operating income totalled \$110.4 million, an increase of \$2.1 million or 1.9 percent compared to the fourth quarter of the previous fiscal year. Growth in operating income generated by the food division, investments, and real estate was partially offset by lower contribution from other operations versus the fourth quarter last year.

Net earnings, including net capital gain (loss) and other items, amounted to \$36.0 million or \$0.55 per share versus \$68.9 million or \$1.04 per share in the fourth quarter last year. The \$32.9 million decrease in net earnings is attributable to a gain on sale of discontinued operations recorded in the fourth quarter last year; partially offset by stronger operating earnings in the fourth quarter of fiscal 2003.

**Food Distribution** Fourth quarter sales reached \$2.57 billion, versus \$2.42 billion in the fourth quarter of fiscal 2002. Despite low food price inflation, sales increased 5.9 percent primarily the result of 1.7 percent growth in same-store sales (1.2 percent excluding expanded stores), continued development of marketing and merchandising programs, a 214,874 net increase in square footage with the opening of 14 new or replacement stores, the expansion of five stores, and the closure of 14 stores.

Company-wide investment by Sobeys in the fourth quarter totalled \$132 million, of which \$107 million was on-balance sheet, resulting in 427,467 additional square feet (214,874 net of store closures), with the average new Sobeys, IGA extra, and Garden Market IGA store size of 44,634 square feet.

Operating income contribution to Empire in the fourth quarter of fiscal 2003 amounted to \$75.1 million, compared with fourth quarter fiscal 2002 contribution of \$74.7 million. Excluding the impact of the Whitby labour disruption, operating income or EBIT contribution in the fourth quarter would have been \$86.4 million, approximately 13.8 percent higher than fiscal 2002.

Fourth quarter EBITDA totalled \$107.8 million, an increase of \$4.0 million or 3.9 percent over the fourth quarter 2002. As a percentage of sales, EBITDA equaled 4.20 percent, a decrease of eight basis points over the 4.28 percent recorded in the fourth quarter last year. Adjusting for the impact of the Whitby distribution centre labour disruption, EBITDA totalled \$119.1 million, representing growth of 14.7 percent, and 4.64 percent of sales.

Operating earnings for the fourth quarter equalled \$40.7 million or 62 cents per share, a decrease of \$1.2 million or 2.9 percent over the fourth quarter last year. After adjusting for the Whitby labour disruption, earnings totalled \$47.9 million or 73 cents per share, an increase of 15.9 percent. The increase in adjusted earnings was the result of the sales and margin growth, along with lower interest expense and lower marginal income tax rates over the prior year.

**Real Estate** Revenue in the fourth quarter of fiscal 2003 increased 7.4 percent to reach \$43.6 million. Operating income in the fourth quarter increased to \$32.8 million or 4.8 percent over the same quarter last year. Real estate contributed 29.7 percent of Empire's total consolidated operating income in the fourth quarter.

Real estate net capital loss in the fourth quarter was \$0.3 million, primarily generated from a loss on the disposal of properties. Net earnings for the quarter amounted to \$14.5 million and represented 40.3 percent of Empire's consolidated fourth quarter net earnings.

Consistent with the twelve month period ended April 30, 2003, real estate revenue and earnings improvements were primarily the result of improved financial contribution from Crombie and Genstar.

**Investments and Other Operations** Investment income for the quarter reached \$2.9 million compared to \$2.0 million in fiscal 2002 as a result of a \$1.0 million increase in earnings contribution from Wajax offset by a \$0.1 million reduction in dividend income from investments.

## Management's Discussion & Analysis

Other operations' contribution to Empire's operating income decreased by \$1.0 million from the fourth quarter last year. This decrease is largely the result of a \$1.3 million reduction in other operations revenue while operating costs declined by only \$0.3 million.

The investment division generated a net capital loss and other items of \$5.5 million in the fourth quarter of fiscal 2003 compared to a net capital loss and other items of \$14.1 million in the fourth quarter last year. The fourth quarter net capital loss last year was primarily the result of the write-down of Empire's Wajax investment, resulting in a \$18.2 million charge, partially offset by net capital gains of \$4.1 million generated from the sale of investments.

### CONSOLIDATED FINANCIAL POSITION

#### Capital Structure and Key Financial Condition Measures

April 30 <sup>th</sup> (\$ in millions, except ratio calculations)	2003	2002
Shareholders' Equity	1,427	1,290
Short-Term Debt	288	293
Long-Term Debt	923	975
Debt to Total Capital	45.9%	49.6%
Net Debt to Total Capital	28.3%	23.3%
Interest Coverage	4.79x	3.73x

**Assets & Net Asset Values** Total assets at year-end of \$4,516.1 million represent a \$198.1 million increase over fiscal 2002. Identifiable assets in food distribution increased from \$2,844.8 million at April 30, 2002, to \$3,172.7 million at April 30, 2003. Identifiable assets in the real estate division increased \$30.2 million or 3.5 percent, from \$871.8 million at April 30, 2002, to \$902.0 million at April 30, 2003.

At April 30, 2003, management calculates Empire's consolidated net asset value at \$2,166 million (\$32.92 per Empire common share), a decrease of \$351 million or 13.9 percent from a calculated consolidated net asset value at April 30, 2002, of \$2,517 million (\$38.31 per share). The table below presents the composition of value by division.

(\$ in millions)	April 30, 2003		April 30, 2002	
	Net Asset Value	Percent of Total	Net Asset Value	Percent of Total
Food distribution <sup>(1)</sup>	\$ 1,515	68%	\$ 1,730	65%
Real estate <sup>(2)</sup>	349	15%	299	11%
Investments and other <sup>(3)</sup>	374	17%	653	24%
	\$ 2,238	100%	\$ 2,682	100%
Less: corporate debt	(72)		(165)	
Net asset value	\$ 2,166		\$ 2,517	
Per share	\$ 32.92		\$ 38.31	

<sup>(1)</sup> Food distribution net asset value equals the 40.84 million common shares of Sobeys owned at fiscal year-end times the market price of a Sobeys common share at fiscal year-end.

<sup>(2)</sup> Real estate net asset value is calculated at 6.5 times trailing funds from operations of \$53.7 million. Fiscal 2002 net asset value used 6.2 times trailing funds from operations of \$48.2 million.

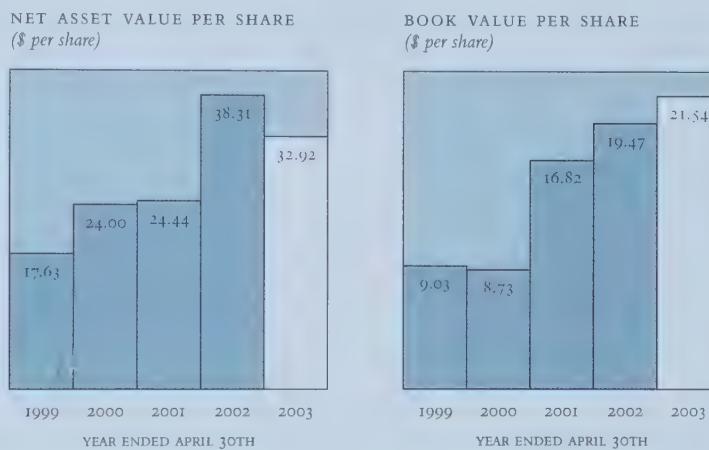
<sup>(3)</sup> Investments net asset value is derived from stated public market values of securities held in the portfolio.

## Management's Discussion & Analysis

At April 30, 2003, approximately 80 percent of Empire's net asset value was derived from assets that are valued by market prices and trade on recognized public stock exchanges. This includes Sobeys common shares, Delhaize common shares, Wajax common shares, and the balance of Empire's investment portfolio. For each dollar increase in Sobeys' share price, Empire's net asset value increases by \$0.62 per share.

**Shareholders' Equity** At April 30, 2003, shareholders' equity totalled \$1,427.1 million versus \$1,290.6 million last year. The \$136.5 million or 10.6 percent increase is attributable to higher retained earnings driven largely by the \$153.9 million in net earnings recorded in fiscal 2003.

Total common shares outstanding at April 30, 2003, were 65.8 million, relatively unchanged from April 30, 2002, after adjusting for the two-for-one common share stock split effective October 7, 2002. Total dividends paid to common shareholders amounted to \$21.7 million or \$0.33 per share, an increase of 54 percent over the previous fiscal year. Book value per common share was \$21.54 at April 30, 2003, compared to \$19.47 last year.



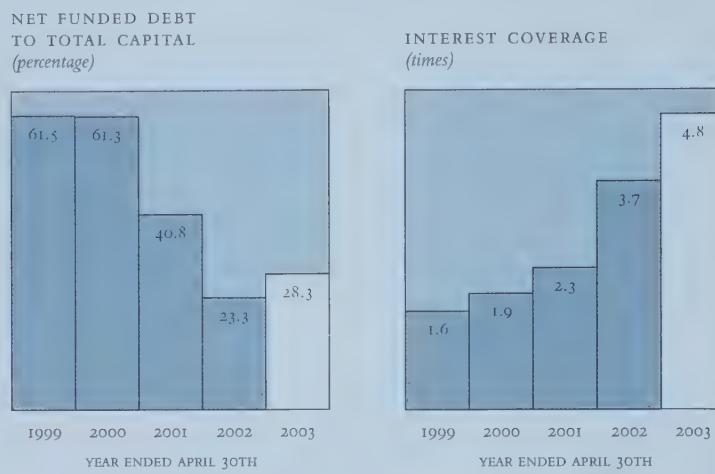
**Liabilities** Empire finances a significant portion of its assets through the use of debt, the majority of which is fixed-rate and long-term in nature. Total fixed-rate, long-term debt at year-end of \$1,028.1 million (which includes the current portion of long-term debt) represents 85 percent of Empire's total funded debt of \$1,211.3 million. Of the fixed-rate, long-term debt, 52.5 percent was directly related to the food distribution segment, 47.0 percent was directly related to the real estate segment, and 0.5 percent was related to other operations. The investment segment carries no long-term debt. Given that the underlying investments are highly liquid in nature, financing matched to the investment segment is short-term. Empire finances its long-term assets with fixed-rate debt, thereby reducing both interest rate and refinancing risk.

Operating income increased 6.9 percent in fiscal 2003, while interest expense decreased by 16.8 percent due primarily to reduced average net short-term debt balances throughout the year. The net effect of these factors was an increase in Empire's overall interest coverage to 4.79 times from 3.73 times in fiscal 2002. All of Empire's businesses reported improved interest coverage in fiscal 2003.

Funded debt (less the estimated realizable value (after-tax) of the Company's investments) to total capital increased by five percentage points to 28.3 percent from 23.3 percent last year. Total funded debt, net of cash and estimated after-tax proceeds on sale of investments, equaled \$562 million at April 30, 2003, an increase of \$185 million from \$377 million last year.

## Management's Discussion & Analysis

Empire has a corporate unsecured debt rating of BBB- (stable) from Standard & Poor's and a debt rating of BBB (stable) from Dominion Bond Rating Service.



### CAPITAL RESOURCES & LIQUIDITY

Short-term liquidity remains strong as a result of internally generated cash flow, net cash on hand, unutilized bank credit facilities, and liquid short-term investments. On a non-consolidated basis, Empire maintains authorized bank lines for operating, general, and corporate purposes of \$325 million, of which 19 percent was utilized at year-end. Financial instruments are used from time to time to manage short-term interest rate fluctuations on underlying short-term lines of credit.

**Operating Activities** For the year ended April 30, 2003, Empire recorded cash flows from operations of \$355.8 million, a decrease of \$265.3 million from the \$621.1 million posted in the previous year. The decrease is primarily the result of a \$245.6 million change in the net balance of non-cash working capital from a year earlier, coupled with a decline of \$36.5 million in items not affecting cash compared to the previous year.

The net change in non-cash working capital was negative \$65.3 million at the end of the year, compared to \$180.3 million at the end of fiscal 2002. The change in the previous year related to significant progress made to improve inventory management, reduce receivables, and to better manage accounts payable. The level of contribution to cash flow from net change in non-cash working capital was not sustained in fiscal 2003 as a result of a \$52.5 million increase in inventory levels over the prior year as a result of new store openings, along with the opening and expansion of new distribution centres during the year, and the effect of the labour disruption at the Whitby distribution centre. Empire expects to continue to run a negative (favourable) managed working capital balance (receivables plus inventory less accounts payable) in fiscal 2004. Any temporary short falls will be financed through short-term debt facilities currently in place.

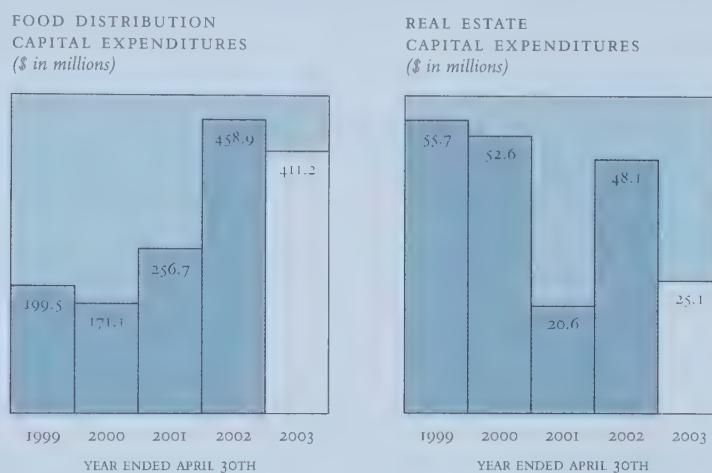
**Investing Activities** Total cash flows used in investing activities amounted to \$276.3 million in fiscal 2003 versus \$499.0 million the prior year. Purchases of property, equipment and other assets totalled \$442.0 million compared to \$519.5 million last year. Cash flows used to purchase these fixed assets in fiscal 2003 was supplied largely from operating activities.

## Management's Discussion &amp; Analysis

The table below presents balance sheet capital expenditures over the last two years by business segment.

Years ended April 30 <sup>th</sup> (\$ in millions)	2003	2002
Food distribution	\$ 411.2	\$ 458.9
Real estate	25.1	48.1
Investments & other	5.7	12.5
Total capital expenditures	\$ 442.0	\$ 519.5

During fiscal 2003, food division company-wide capital spending totalled \$546 million for the food distribution segment. This capital spending, which includes expenditures by Sobeys, franchisees, and third parties, represents a decrease of \$133 million or 19.6 percent from the \$679 million in total spending for fiscal 2002.



**Financing Activities** Cash flows used for financing activities totalled \$69.2 million in fiscal 2003, versus \$322.4 million last year. Long-term debt of \$82.2 million was repaid during the year along with \$107.9 million of bank loans. Total proceeds on the issue of long-term debt amounted to \$131.5 million largely as a result of a \$100 million Medium Term Note ("MTN") issuance by Sobeys on February 26, 2003. Common dividends of \$21.7 million were paid in the year versus \$14.1 million last year.

Empire's total debt at April 30, 2003, amounted to \$1,211.3 million, a decrease of \$56.5 million or 4.5 percent from the \$1,267.8 million reported at April 30, 2002.

Empire maintains direct access to capital markets for longer-term capital resources. The real estate operation generally structures its long-term obligations with fixed rates and fully amortized debt to reduce interest rate and refinancing risk. The long-term financial flexibility of the Company is enhanced through access to capital markets.

On December 20, 2002, Sobeys filed a short form shelf prospectus providing for the issuance of up to \$500 million in unsecured MTNs over the next two years. On February 26, 2003, the Company issued a Series C \$100 million MTN with a maturity date of February 26, 2018 (15 years), and a coupon rate of 7.16 percent. The issuance of this \$100 million Series C MTN was to refinance its Series B MTN due October 3, 2003, prior to maturity, to capitalize on the favorable interest rates and term available in February 2003.

At year-end, on a consolidated basis, the Company's authorized bank credit facilities exceeded borrowings by \$679.7 million. The Company, at its option, can convert \$250 million of its authorized revolving-term credits into non-revolving fixed-rate financing for a term up to 30 months.

## Management's Discussion & Analysis

### RISK AND RISK MANAGEMENT

Through its operating companies and investment portfolio, Empire is exposed to a number of risks in the normal course of business that have the potential to affect its operating performance. These risks include competitive risk, environmental risk, financial risk, operational risk, and equity price risk.

**Competitive Risk** Empire's food distribution business, through Sobeys, operates in a dynamic and competitive market. Other national and regional food distribution companies along with non-traditional competitors, such as mass merchandisers and warehouse clubs, represent a competitive risk to Sobeys' ability to attract customers and operate profitably in its markets.

Sobeys actively monitors and responds to competitive and economic conditions in each of its markets to protect and grow market share. The company is positioned to minimize competitive risk through diversification (Sobeys operates in over 900 communities across Canada), its focus on serving the customer with excellent service and products, and an ongoing commitment to cost effective operations.

Empire's real estate operations compete with numerous other developers, managers, and owners of real estate properties in seeking tenants and new properties for future development. The existence of competing developers, managers, and owners could affect our real estate group's ability to lease space in its properties and on rents charged or concessions granted. This could adversely affect revenues and cash flow.

Continued growth of rental income is dependent on renewing expiring leases and finding new tenants to fill vacancies at prevailing rental rates, thereby ensuring an attractive return on our investment. The success of the real estate portfolio is also subject to general economic conditions, the supply and demand for rental property in key markets served, and the availability of attractive financing to expand the real estate portfolio where deemed prudent. During fiscal 2003, our real estate operations encountered relatively positive economic conditions in our key markets and a relative lack of new rental space resulted in relatively stable rental rates.

**Environmental Risk** The Company has an effective environmental program in place including policies targeted at ensuring compliance with all applicable environmental legislative requirements. Each operating business conducts an ongoing, comprehensive environmental monitoring process and the Company is unaware of any material environmental liabilities in any of its operating companies. The Board of Directors receives quarterly reports that review any outstanding issues including plans to resolve them.

**Financial Risk** At the consolidated level, the Board of Directors has approved a formal debt management policy, which details certain directives to ensure that prudent financial management is adhered to. In the ordinary course of managing its debt, Empire and its operating companies have entered into various financial instruments, which are not reflected on the balance sheet, to manage the volatility of borrowing costs. Financial instruments are not used for speculative purposes.

The food division had in place an interest hedge of \$45.1 million on its funded debt at a fixed rate of 6.35 percent, to maturing in 2005. Crombie had an interest rate hedge for \$18 million, maturing in 2004 at a fixed rate of 4.015 percent.

The majority of Empire's and its subsidiaries' debt is at fixed rates and accordingly there is limited exposure to interest rate risk.

Included in investments at cost is \$102.6 Canadian that is denominated in Euros and \$68.9 Canadian that is denominated in US funds.

**Operational Risk** Empire and its subsidiaries are self-insured in respect of certain operational risks. In addition comprehensive loss prevention programs are maintained to mitigate the financial impact to the Company or its affiliates.

Sobeys, as part of its quality control program, recognizes food safety, particularly in perishable products, is of utmost importance. The company maintains strict policies in its facilities to ensure food quality and safety are not compromised.

## Management's Discussion & Analysis

Sobeys' operational risks also include the risk of labour disruption. Subsequent to fiscal 2003 year-end, on May 5, 2003, employees at the Whitby, Ontario distribution centre (CAW, local 1090) ratified a new three-year contract. The company is committed to providing fair, equitable, and competitive compensation to its employees. Labour disruptions pose a moderate operational risk, as the company has good relations with its employees and unions, and does not anticipate any material labour disruptions in fiscal 2004.

**Equity Price Risk** The carrying values of the investments in Empire's investment portfolio are based on cost; however, their realizable value is based on market prices and therefore is subject to market price fluctuations. Empire has a disciplined, long-term approach to select quality investments and we have been successful in generating above market returns. While we may not expect our portfolio returns to match those of the prior year, we will continue to manage it prudently to ensure appropriate diversification and liquidity.

### ACCOUNTING POLICY CHANGES

Effective May 1, 2002, the Company implemented the CICA accounting standard pertaining to goodwill and other intangible assets. Under this standard, goodwill and intangible assets with indefinite useful lives are no longer amortized, but will be subject to impairment tests on at least an annual basis. Empire and its operating companies have completed their review and have determined that the book value of existing goodwill is not impaired.

Also effective May 1, 2002, the Company adopted CICA accounting standard, Section 3870, "Stock-based Compensation and Other Stock-based Payments". While the Company's long-term incentive plan for executives provides for the issuance of stock options, the Company ceased issuing options in 1996, and as of April 30, 2003, had 67,074 options outstanding. Adopting this standard did not have an effect on Empire's financial statements.

### OUTLOOK

Management has projected stronger financial performance in fiscal 2004 as a result of continued growth in contribution from each operating company. We have assumed the continuation of intense competition in our projections and have factored in conservative cost of capital assumptions. We remain committed to executing operational and capital allocation decisions that will grow the cash flow and net asset value in each of our businesses over the long-term.

## Management's Statement of Responsibility for Financial Reporting

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgements. All other financial information in the report is consistent with that contained in the consolidated financial statements.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is chaired by and composed of non-management directors, meet regularly with financial management and external auditors to satisfy itself as to reliability and integrity of financial information and the safeguarding of assets. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual consolidated financial statements to be issued to shareholders. The external auditors have full and free access to the Audit Committee.



**Paul D. Sobey**  
President and  
Chief Executive Officer

June 26, 2003



**Paul V. Beesley**  
Senior Vice President,  
Chief Financial Officer and Secretary

June 26, 2003

### Auditors' Report

*To the Shareholders of Empire Company Limited*

We have audited the consolidated balance sheets of Empire Company Limited as at April 30, 2003 and 2002, and the consolidated statements of earnings, retained earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



New Glasgow,  
Nova Scotia, Canada

**Chartered Accountants**

June 11, 2003

## Consolidated Balance Sheets

April 30  
(in millions)

	2003	2002
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 316.8	\$ 302.6
Receivables	348.8	312.8
Inventories	478.2	425.7
Prepaid expenses	37.1	37.0
Future income taxes (Note 11)	-	5.4
Discontinued operations (Note 2)	1.9	5.8
	1,182.8	1,089.3
Investments, at cost (quoted market value \$288.9; 2002 \$546.8)	345.7	479.8
Investments, at equity (quoted market value \$29.8; 2002 \$41.1)	41.7	41.1
Current assets and marketable investments	1,570.2	1,610.2
Property and equipment (Note 4)	2,105.2	1,911.6
Other assets (Note 5)	840.7	796.2
	\$ 4,516.1	\$ 4,318.0
<b>LIABILITIES</b>		
Current		
Bank indebtedness (Note 6)	\$ 99.3	\$ 207.2
Accounts payable and accrued liabilities	1,037.4	1,006.5
Income taxes payable	43.5	51.9
Future income taxes (Note 11)	18.4	-
Long-term debt due within one year	188.9	85.6
	1,387.5	1,351.2
Long-term debt (Note 7)	923.1	975.0
Deferred revenue	6.7	12.8
Employee future benefit obligation (Note 17)	77.1	71.7
Minority interest	539.2	480.9
Future income taxes (Note 11)	155.4	135.8
	3,089.0	3,027.4
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 8)	196.0	195.6
Retained earnings	1,230.6	1,094.5
Foreign currency translation adjustment (Note 1)	0.5	0.5
	1,427.1	1,290.6
	\$ 4,516.1	\$ 4,318.0

See accompanying notes to the consolidated financial statements.

On behalf of the Board,



Director



Director

## Consolidated Statements of Retained Earnings

<i>Years Ended April 30 (in millions)</i>	<b>2003</b>	<b>2002</b>
Balance, beginning of year	\$ 1,094.5	\$ 923.1
Net earnings	153.9	195.9
	<b>1,248.4</b>	1,119.0
Refundable taxes		
Paid	-	11.7
Recovered	(4.9)	(1.7)
	<b>(4.9)</b>	10.0
Dividends declared		
Preferred shares	0.3	0.4
Common shares	21.7	14.1
	<b>22.0</b>	14.5
Premium on common shares purchased for cancellation (Note 8)	0.7	-
Balance, end of year	<b>\$ 1,230.6</b>	\$ 1,094.5

*See accompanying notes to the consolidated financial statements.*

### Consolidated Statements of Earnings

Years Ended April 30 (in millions, except per share amounts)	2003	2002
Revenue	\$ 10,624.2	\$ 9,926.5
Cost of sales, selling and administrative expenses	10,050.6	9,409.4
Depreciation	573.6	517.1
Investment income (Note 9)	14.9	18.0
Operating income	444.9	416.2
Interest expense		
Long-term debt	89.9	104.0
Short-term debt	3.0	7.6
	92.9	111.6
	352.0	304.6
Capital loss and other items (Note 10)	(9.9)	(3.1)
	342.1	301.5
Income taxes (Note 11)		
Current income taxes	77.0	97.1
Future income taxes	43.4	7.7
	120.4	104.8
	221.7	196.7
Minority interest	67.8	50.0
Earnings before goodwill amortization	153.9	146.7
Goodwill amortization (Note 1)	-	9.5
Earnings from continuing operations	153.9	137.2
Discontinued operations (Note 2)		
Earnings from operations	-	8.7
Gain on sale	-	50.0
	-	58.7
Net earnings	\$ 153.9	\$ 195.9
Earnings per share, basic and diluted (Note 3)		
Earnings from continuing operations	\$ 2.34	\$ 2.08
Net earnings	\$ 2.34	\$ 2.97

*See accompanying notes to the consolidated financial statements.*

## Consolidated Statements of Cash Flows

Years Ended April 30 (in millions)	2003	2002
<b>Operating</b>		
Earnings from continuing operations	\$ 153.9	\$ 137.2
Items not affecting cash (Note 12)	267.5	304.0
Preferred dividends	(0.3)	(0.4)
	421.1	440.8
Net change in non-cash working capital	(65.3)	180.3
Cash flows from operating activities	355.8	621.1
<b>Investing</b>		
Net decrease (increase) in investments	134.1	(13.3)
Purchase of shares in subsidiary, Sobeys Inc.	(5.8)	(20.9)
Purchase of property, equipment, and other assets	(442.0)	(519.5)
Proceeds from sale of property	37.4	53.2
Increase in deferred foreign currency translation adjustment gains	-	1.5
Cash flows used in investing activities	(276.3)	(499.0)
<b>Financing</b>		
Bank indebtedness	(107.9)	(22.0)
Construction loans	2.1	(13.1)
Issue of long-term debt	131.5	47.4
Revolving securitization	-	(150.0)
Repayment of long-term debt	(82.2)	(169.5)
Minority interest	4.1	8.3
Issue of Non-Voting Class A shares	1.6	0.6
Repurchase of Non-Voting Class A shares	(1.6)	-
Common dividends	(21.7)	(14.1)
Refundable taxes	4.9	(10.0)
Cash flows used in financing activities	(69.2)	(322.4)
Increase (decrease) in cash from continuing operations	10.3	(200.3)
Discontinued operations (Note 2)	3.9	412.7
Increase in cash and cash equivalents	14.2	212.4
Cash and cash equivalents, beginning of year	302.6	90.2
Cash and cash equivalents, end of year	\$ 316.8	\$ 302.6

See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

April 30, 2003  
(in millions, except share capital)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

**Principles of consolidation** These consolidated financial statements include the accounts of the Company and all subsidiary companies. Investments in which the Company has significant influence are accounted for by the equity method. Investments in real estate joint ventures are consolidated on a proportionate basis.

**Cash and cash equivalents** Cash and cash equivalents are defined as cash, treasury bills, guaranteed investments, and temporary investments.

**Inventories** Warehouse inventories are valued at the lower of cost and net realizable value with cost being substantially determined on a first-in, first-out basis. Retail inventories are valued at the lower of cost and net realizable value less normal profit margins as determined by the retail method of inventory valuation. Real estate inventories, including raw land and development costs, are carried at the lower of cost and net realizable value.

**Depreciation** The sinking fund method is used to record depreciation of the real estate buildings, calculated as an amount which, compounded annually at the rate of 5 percent, will fully amortize the cost of the buildings over their estimated useful lives ranging from 20 to 40 years. Deferred leasing costs are amortized over the terms of the related leases and included in operating expenses.

Depreciation of other property and equipment is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Equipment	3 – 10 years
Buildings	15 – 40 years
Leasehold improvements	7 – 10 years

#### Capitalization of costs

**A) Construction projects** Certain subsidiary companies and joint ventures capitalize interest during the construction period until the project opening date. The amount of interest capitalized to construction in progress in the current year was \$1.3 (2002 – \$0.7).

**B) Rental properties** Certain subsidiaries and joint ventures capitalize the direct carrying and operating costs applicable to the unleased areas of each new project for a reasonable period from the project opening date until a certain level of occupancy is reached. The amount of costs capitalized in the current year was \$Nil (2002 – \$Nil).

**C) Land held for future development** A subsidiary company capitalizes interest and real estate taxes to the extent that they relate to properties for immediate development. The carrying costs on the balance of properties held for future development are expensed as incurred. The amount of real estate taxes capitalized to land held for future development in the current year was \$0.2 (2002 – \$0.2).

**Leases** Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against income and the capitalized value is depreciated on a straight-line basis over its estimated useful life. Obligations under capital leases are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases with rental payments being expensed as incurred.

## Notes to the Consolidated Financial Statements

**Goodwill** Goodwill represents the excess of the purchase price of the business acquired over the fair value of the underlying net tangible assets acquired at the date of acquisition.

Effective May 1, 2002, the Company prospectively implemented the recommendation of the new handbook section 3062 issued by the Canadian Institute of Chartered Accountants ("CICA") on goodwill and other tangible assets. Under the new standard, goodwill and intangible assets with indefinite useful lives are no longer amortized but are subject to an annual impairment review. Any permanent impairment in the book value of goodwill or intangible assets will be written off against earnings. The Company has completed its review and has determined the book value of existing goodwill is not impaired.

Goodwill amortization is net of income tax recovery of \$0.6 and minority interest of \$5.9 in fiscal 2002.

**Cost of financing** The direct costs of debt financing are being amortized over the terms of the related debt.

**Store opening expenses** Opening expenses of new stores and store conversion are written off during the first year of operation.

**Stock-based compensation plans** Effective May 1, 2002, the Company adopted the CICA's new handbook section 3870 relating to stock-based compensation plans. This section has been implemented retroactively without restatement of the prior period financial statements. No adjustment to retained earnings is required as a result of implementing this section.

The Directors of the Company and its subsidiary, Sobeys Inc., can choose to defer the receipt of their compensation and have the ultimate amount to be received tied to the market value of their respective Company's stock. The deferred amounts are to be repaid when they cease to be a Director. The Company records a liability based on the current market value of the Companies' stock. At April 30, 2003, the liability recorded under the plans is \$1.6 (2002 - \$1.0).

The Company has a stock option plan that allows holders to purchase Non-Voting Class A shares as described in Note 8.

**Future income taxes** CICA Handbook Section 3465 requires the difference between the tax basis of assets and liabilities and their carrying value on the balance sheet be used to calculate future tax assets and liabilities. The future tax assets and liabilities have been measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse.

**Deferred revenue** Deferred revenue consists of long-term supplier purchase agreements and rental revenue arising from the sale of subsidiaries. Deferred revenue is being taken into income over the term of the related agreement and leases.

**Foreign currency** Assets and liabilities of self-sustaining foreign investments are translated at exchange rates prevailing at the balance sheet date. The revenues and expenses are translated at average exchange rates prevailing during the year. The gains and losses on translation are deferred and included as a separate component of shareholders' equity titled "foreign currency translation adjustment".

**Revenue recognition** Food distribution sales are recorded at the point of sale. Food distribution sales include revenues from customers through corporate stores operated by the Company and revenue from sales to franchised stores, associated stores, and independent accounts. Real estate revenue is recognized in accordance with the lease agreements with tenants.

## Notes to the Consolidated Financial Statements

**Accounting estimates** The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future.

**Earnings per share** Earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method. Earnings per share reflect the two-for-one stock split of the Non-Voting Class A shares and Class B common shares as described in Note 8.

## 2. DISCONTINUED OPERATIONS

On March 30, 2002, the Company's subsidiary, Sobeys Inc., completed the sale of substantially all of the assets of its SERCA Foodservice operations. SERCA Foodservice distributed foodservice products to primarily hospitality, institutional, and commercial customers throughout Canada.

The revenues of discontinued operations are \$2,003.6 for the 47 weeks ended March 30, 2002.

Interest on other debt that is not directly attributable to the discontinued operations has not been allocated to the discontinued operations.

Current assets of discontinued operations at April 30, 2003, and April 30, 2002, are comprised of assets for resale.

Cash flow from discontinued operations for the year ended April 30, 2003, include cash generated by asset sales of \$3.9. Cash flow from discontinued operations for the 11 months ended March 30, 2002, include operating cash used by SERCA Foodservice of \$2.2, cash generated by investing activities of \$3.8, and cash used by financing activities of \$0.3.

**Gain on sale** On March 30, 2002, predominately all of the assets of SERCA Foodservice business were sold to Sysco Corp. The components of the gain on sale are:

Cash proceeds	\$ 411.4
Trade and other receivables	(185.7)
Inventory	(97.6)
Property and equipment	(37.1)
Goodwill	(154.0)
Other assets and liabilities	(11.9)
Selling expenses	(3.6)
Trade and other payables	198.7
Net assets	(291.2)
Gain on sale, before tax and minority interest	120.2
Current tax expense	39.5
Gain on sale before minority interest	80.7
Minority interest	30.7
Gain on sale	\$ 50.0

## Notes to the Consolidated Financial Statements

**3. EARNINGS PER SHARE**

Earnings per share amounts are calculated on the weighted average number of shares outstanding (2003 – 65,781,807 shares; 2002 – 65,700,000 shares) after providing for preferred share dividends accrued to the balance sheet date. Diluted earnings per share have been calculated on the assumption that all the outstanding stock options were exercised at the beginning of the year.

Earnings applicable to common shares is comprised of the following:

	2003	2002
Earnings before goodwill amortization	\$ 153.9	\$ 146.7
Goodwill amortization	-	9.5
Earnings from continuing operations	<b>153.9</b>	137.2
Capital gain (loss) and other items, net of tax recovery of \$3.9 (2002 – \$12.3) and minority interest of \$Nil (2002 – \$4.5)	<b>(6.0)</b>	13.7
	<b>159.9</b>	123.5
Earnings from discontinued operations, net of goodwill amortization of \$2.2	-	8.7
Operating earnings	<b>159.9</b>	132.2
Capital gain (loss) and other items	<b>(6.0)</b>	13.7
Gain on sale of discontinued operations	-	50.0
	<b>(6.0)</b>	63.7
Net earnings	<b>153.9</b>	195.9
Preferred share dividends	0.3	0.4
Earnings applicable to common shares	<b>\$ 153.6</b>	\$ 195.5
Earnings per share is comprised of the following:		
Earnings before goodwill amortization applicable to common shares	\$ 2.34	\$ 2.23
Goodwill amortization	-	0.15
Earnings from continuing operations	<b>2.34</b>	2.08
Capital gain (loss) and other items, net of taxes and minority interest	<b>(0.09)</b>	0.21
	<b>2.43</b>	1.87
Earnings from discontinued operations, net of goodwill amortization of \$0.03	-	0.13
Operating earnings	<b>2.43</b>	2.00
Capital gain (loss) and other items	<b>(0.09)</b>	0.21
Gain on sale of discontinued operations	-	0.76
	<b>(0.09)</b>	0.97
Earnings per share	<b>\$ 2.34</b>	\$ 2.97
Diluted earnings per share	<b>\$ 2.34</b>	\$ 2.97

## Notes to the Consolidated Financial Statements

## 4. PROPERTY AND EQUIPMENT

	2003		
	Cost	Accumulated Depreciation	Net Book Value
Real estate segment			
Land	\$ 118.7	\$ -	\$ 118.7
Land held for future development	16.8	-	16.8
Buildings	828.2	151.5	676.7
	963.7	151.5	812.2
Food distribution and other			
Land	84.0	-	84.0
Land held for future development	81.4	-	81.4
Buildings	523.4	102.7	420.7
Equipment	1,363.3	791.5	571.8
Leasehold improvements	275.6	150.9	124.7
Assets under capital leases	15.4	5.0	10.4
	2,343.1	1,050.1	1,293.0
Total	\$ 3,306.8	\$ 1,201.6	\$ 2,105.2
	2002		
	Cost	Accumulated Depreciation	Net Book Value
Real estate segment			
Land	\$ 112.3	\$ -	\$ 112.3
Land held for future development	22.2	-	22.2
Buildings	799.0	142.5	656.5
	933.5	142.5	791.0
Food distribution and other			
Land	75.5	-	75.5
Land held for future development	78.8	-	78.8
Buildings	483.5	100.6	382.9
Equipment	1,235.5	787.2	448.3
Leasehold improvements	258.1	133.9	124.2
Assets under capital leases	17.6	6.7	10.9
	2,149.0	1,028.4	1,120.6
Total	\$ 3,082.5	\$ 1,170.9	\$ 1,911.6

## 5. OTHER ASSETS

	2003	2002
Loans and mortgages receivable	\$ 132.3	\$ 109.0
Goodwill	569.3	565.8
Deferred charges	139.1	121.4
	\$ 840.7	\$ 796.2

**Loans receivable** Loans receivable represent long-term financing to certain retail associates. These loans are primarily secured by inventory, fixtures and equipment, bear interest at rates that fluctuate with prime and have repayment terms up to ten years. The carrying amount of the loans receivable approximates fair value based on the variable interest rates charged on the loans and the operating relationship of the associates with the Company.

The loans and mortgages receivable are net of current portions of \$15.4 (2002 - \$19.3).

## Notes to the Consolidated Financial Statements

**6. BANK INDEBTEDNESS**

As security for certain bank loans, the Company has provided an assignment of certain marketable securities and, in certain divisions and subsidiaries, general assignments of receivables and leases, first floating charge debentures on assets and the assignment of proceeds of fire insurance policies.

Under the terms of a credit agreement entered into between the Company and a banking syndicate arranged by the Bank of Nova Scotia, a revolving term credit facility of \$300.0 was established. This unsecured facility will expire on June 24, 2004, however, various provisions of the agreement provide the Company with the ability to extend the facility for a minimum period of two years. Interest is payable on this facility at rates that fluctuate with changes in the prime rate.

In the ordinary course of managing its debt, the Company uses various financial instruments, which are not reflected on the balance sheet, to reduce or eliminate exposure to interest rate and foreign currency risks. Interest rate swaps, caps, collars, and forward contracts are used to hedge or reduce the exposure to floating interest rates and foreign currency fluctuations associated with short-term obligations. At April 30, 2003, the Company had no such instruments in place.

**7. LONG-TERM DEBT**

	Real Estate Segment	Food Distribution Segment	2003 Total	2002 Total
First mortgage loans, average interest rate 9.3%, due 2003-2026	\$ 396.7	\$ 25.1	\$ 421.8	\$ 435.0
Bank loans, average interest rate 6.4%, due September 30, 2004	-	60.0	60.0	100.0
Medium term note, interest rate 7.6%, due November 1, 2005	-	175.0	175.0	175.0
Medium term note, interest rate 7.0%, due October 2, 2003	-	100.0	100.0	100.0
Medium term note, interest rate 7.2%, due February 26, 2018	-	100.0	100.0	-
Debentures, average interest rate 10.7%, due 2003-2016	78.6	78.3	156.9	166.2
Notes payable and other debt at interest rates fluctuating with the prime rate	48.8	37.6	86.4	73.4
	524.1	576.0	1,100.1	1,049.6
Construction loans at interest rates fluctuating with the prime rate	2.5	-	2.5	0.4
Capital lease obligations, due 2003-2011, net of imputed interest	-	9.4	9.4	10.6
	526.6	585.4	1,112.0	1,060.6
Less amount due within one year	38.8	150.1	188.9	85.6
	\$ 487.8	\$ 435.3	\$ 923.1	\$ 975.0

The Company has fixed the interest rate on \$63.1 of its long-term debt at rates from 4.0 percent to 6.4 percent by utilizing interest exchange agreements.

Long-term debt is secured by land and buildings, specific charges on certain assets, and additional security as described in Note 6.

## Notes to the Consolidated Financial Statements

During fiscal 2001, a short form prospectus was filed by Sobeys providing for the issuance of up to \$500.0 in unsecured medium term notes. At the same time, Sobeys negotiated a new unsecured \$550.0 credit facility consisting of \$250.0 of non-revolving debt to be repaid over five years, plus a \$300.0 revolving line of credit. As of April 30, 2003, \$190.0 of the non-revolving debt had been retired. The short form prospectus expired on June 22, 2002, in accordance with the terms. On December 20, 2002, (amended on February 17, 2003) Sobeys filed a final short form prospectus providing for the issuance of up to \$500.0 of unsecured medium term notes over the next two years.

Debt retirement payments and capital lease obligations in each of the next five fiscal years are:

	Long-term Debt	Capital Leases
2004	\$ 187.5	\$ 1.4
2005	53.0	1.5
2006	222.0	1.5
2007	32.3	1.6
2008	56.1	1.1

**Operating leases** The net aggregate, annual, minimum rent payable under operating leases for fiscal 2003 is approximately \$90.3 (\$185.1 gross less expected sub-lease income of \$94.8). The net commitments over the next five fiscal years are:

	Net Lease Obligation
2004	\$ 90.3
2005	82.0
2006	76.6
2007	65.7
2008	60.3

## 8. CAPITAL STOCK

Authorized	Number of Shares
Preferred shares, par value of \$25 each, issuable in series as a class. Series 2 cumulative, redeemable, rate of 75% of prime	1,034,261,305
Non-voting Class A shares, without par value	273,166,734
Class B common shares, without par value, voting	40,800,000
	2003
Issued and outstanding	No. of Shares
Preferred shares, Series 2	431,900
Non-voting Class A	30,861,402
Class B common	34,897,456
	200.3
Loans receivable from officers and employees under share purchase plan	(4.3)
	\$ 196.0
	2002
	\$ 195.6

Effective October 7, 2002, both the Non-Voting Class A shares and Class B common shares were split on the basis of two-for-one. All number of shares and per share amounts have been restated to reflect the stock split.

## Notes to the Consolidated Financial Statements

During the year, the Company purchased for cancellation 60,124 Non-Voting Class A shares. The purchase price was \$1.6, of which \$0.7 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings.

During the year 27,800 (2002 – 86,132) options were exercised resulting in 27,800 (2002 – 86,132) Non-Voting Class A shares being issued for \$0.2 (2002 – \$0.6). Options allow holders to purchase Non-Voting Class A shares at \$6.555 per share. Options expire at dates from June 2004 to October 2006. There were 67,074 options outstanding at April 30, 2003.

During the year, 47,506 Non-Voting Class A shares were issued under the Company's share purchase plan to certain officers and employees for \$1.4, which was based on the average trading price of the Non-Voting Class A shares on the Toronto Stock Exchange for the five previous trading days.

Loans receivable from officers and employees of \$4.3 (2002 – \$3.5) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity. Loan repayments will result in a corresponding increase in Share Capital. The loans are non-interest bearing and non-recourse, secured by 273,954 (2002 – 290,144) Non-Voting Class A shares. Market value of the shares at April 30, 2003, was \$6.5 (2002 – \$8.1).

Under certain circumstances, where an offer (as defined in the share conditions) is made to purchase Class B common shares, the holders of the Non-Voting Class A shares shall be entitled to receive a follow-up offer at the highest price per share paid, pursuant to such offer to purchase Class B common shares.

### 9. INVESTMENT INCOME

	2003	2002
Dividend and interest income	\$ 14.3	\$ 15.0
Share of income of companies accounted for by the equity method	0.6	3.0
	<b>\$ 14.9</b>	<b>\$ 18.0</b>

### 10. CAPITAL LOSS AND OTHER ITEMS

	2003	2002
Gain (loss) on sale of investments	\$ (9.7)	\$ 34.3
Foreign currency translation loss	–	(3.1)
Gain (loss) on disposal of properties	(0.2)	15.1
Employee future benefit obligation	–	(9.5)
Reduction of book value of investments	–	(23.2)
Reduction of book value of real estate assets	–	(16.7)
	<b>\$ (9.9)</b>	<b>\$ (3.1)</b>

At the time of the implementation of CICA section 3461, relating to employee future benefits, the liability was estimated to be \$59.1 based on information available at that time. In the prior year, the Company requested an updated actuarial valuation of the liability. This valuation, using current information, indicated that the previous estimate was understated by \$9.5.

In the prior year, as a result of a strategic review, including a review of the carrying value of investments and real estate assets, the Company determined that a write-down was appropriate. Accordingly, the carrying value of Wajax was reduced by \$23.2 and the carrying value of certain real estate properties was reduced by \$16.7.

## Notes to the Consolidated Financial Statements

**11. INCOME TAXES**

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory tax rate as a result of the following:

	2003	2002
Income tax expense according to combined statutory rate of 36.7% (2002 – 39.9%)	\$ 129.0	\$ 115.2
Increase (decrease) in income taxes resulting from		
Adjustment to future tax assets and liabilities for substantially enacted changes in tax laws	(3.6)	(3.9)
Non-taxable gains	(0.4)	(0.1)
Non-taxable dividends and equity earnings	(3.0)	(5.0)
Non-deductible goodwill amortization	–	5.9
Other	(1.4)	1.1
Large corporation tax	3.7	3.3
Total income taxes (before capital loss and other items)	124.3	116.5
Capital loss and other items	(3.9)	(12.3)
	\$ 120.4	\$ 104.2

April 30, 2003, income tax expense attributable to net income consists of:

	Current	Future	Total
Operations	\$ 81.0	\$ 43.3	\$ 124.3
Capital loss and other items	(4.0)	0.1	(3.9)
	\$ 77.0	\$ 43.4	\$ 120.4

April 30, 2002, income tax expense attributable to net income consists of:

	Current	Future	Total
Operations	\$ 92.5	\$ 24.6	\$ 117.1
Capital loss and other items	4.6	(16.9)	(12.3)
Goodwill	–	(0.6)	(0.6)
	\$ 97.1	\$ 7.1	\$ 104.2

The tax effect of temporary differences that give rise to significant portions of future income taxes are presented below:

	2003	2002
Property and equipment	\$ 83.5	\$ 75.5
Investments	48.5	48.6
Future employee benefit obligation	(24.3)	(26.9)
Restructuring provisions	(2.7)	(5.4)
Pension contributions	12.3	13.8
Deferred cost	14.9	10.2
Deferred credits	34.9	–
Goodwill	4.4	9.2
Other	2.3	5.4
	\$ 173.8	\$ 130.4
Future income taxes – current	\$ 18.4	\$ (5.4)
Future income taxes – non-current	155.4	135.8
	\$ 173.8	\$ 130.4

## Notes to the Consolidated Financial Statements

## 12. SUPPLEMENTARY CASH FLOW INFORMATION

	2003	2002
a) Items not affecting cash		
Depreciation	\$ 143.6	\$ 118.9
Goodwill amortization	-	16.0
Future income taxes	43.4	77.9
Amortization of deferred items	17.0	19.0
Equity in earnings of other companies, net of dividends received	(0.6)	(3.0)
Minority interest	58.7	42.9
Employee future benefit obligation, net of income taxes of \$Nil (2002 - \$3.6) and minority interest of \$Nil (2002 - \$2.3)	5.4	6.5
Reduction of book value of investments, net of income taxes of \$5.0	-	18.2
Reduction of book value of real estate assets, net of income taxes of \$6.9 and minority interest of \$2.2	-	7.6
	\$ 267.5	\$ 304.0
b) Other information		
Net interest paid	\$ 95.2	\$ 114.4
Net income taxes paid	\$ 100.4	\$ 104.3

## 13. REAL ESTATE JOINT VENTURES

The financial statements include the Company's proportionate share of the accounts of incorporated and unincorporated real estate joint ventures. A summary of these amounts is as follows:

	2003	2002
Assets	\$ 76.8	\$ 73.0
Liabilities	\$ 54.0	\$ 41.3
Equity and advances	22.8	31.7
	\$ 76.8	\$ 73.0
Revenues	\$ 30.6	\$ 34.0
Expenses	5.1	2.5
Income before income taxes	\$ 25.5	\$ 31.5
Cash provided (used)		
Operating activities	\$ 30.7	\$ 50.3
Investing activities	0.3	(0.2)
Financing activities	4.0	(5.5)
	\$ 35.0	\$ 44.6

## Notes to the Consolidated Financial Statements

## 14. SEGMENTED INFORMATION

	2003	2002
Revenue		
Food distribution	\$ 10,414.5	\$ 9,732.5
Real estate		
Outside	149.2	137.8
Inter-segment	49.4	47.3
	198.6	185.1
Other operations	60.5	56.2
	10,673.6	9,973.8
Elimination	(49.4)	(47.3)
	\$ 10,624.2	\$ 9,926.5
Operating income		
Food distribution	\$ 324.7	\$ 295.4
Real estate	103.8	100.6
Other operations	9.0	9.0
Investment income	14.9	18.0
Corporate expenses	(7.5)	(6.8)
	\$ 444.9	\$ 416.2
Identifiable assets		
Food		
Food distribution	\$ 2,601.5	\$ 2,273.2
Goodwill	569.3	565.8
Discontinued operations	1.9	5.8
	3,172.7	2,844.8
Real estate	902.0	871.8
Investments	387.3	520.7
Other	54.1	80.7
	\$ 4,516.1	\$ 4,318.0
Depreciation		
Food distribution	\$ 124.0	\$ 101.0
Real estate	15.2	13.7
Corporate and other	4.4	4.2
	\$ 143.6	\$ 118.9
Capital expenditure		
Food distribution	\$ 411.2	\$ 458.9
Real estate	25.1	48.1
Corporate and other	5.7	12.5
	\$ 442.0	\$ 519.5

The Company operates principally in two business segments: food distribution and real estate. The food distribution segment consists of distribution of food products in Canada. The real estate segment consists of development, rental, and management of shopping centres and office buildings located principally in the Atlantic provinces. Inter-segment transactions are at market values.

## Notes to the Consolidated Financial Statements

### 15. FINANCIAL INSTRUMENTS

**Credit risk** There is no significant concentration of credit risk. The credit risk exposure is considered normal for the business.

**Other financial instruments** The book value of cash and cash equivalents, receivables, mortgages and loans, bank indebtedness, accounts payables and accrued liabilities, and income taxes payable approximate fair values at April 30, 2003. The fair value of investments is \$318.7.

The total fair value of long-term debt is estimated to be \$1,229.9. The fair value of variable rate debt is assumed to approximate its carrying amount. The fair value of other long-term debt has been estimated by discounting future cash flows at a rate offered for debt of similar maturities and credit quality.

**Interest rate risk** The majority of the Company debt is at fixed rates. Accordingly, there is limited exposure for interest rate risk.

**Foreign currency risk** Investments, at cost include \$102.6 Canadian that is denominated in Euros and \$68.9 Canadian that is denominated in U.S. funds.

### 16. CONTINGENT LIABILITIES

At April 30, 2003, the Company was contingently liable for letters of credit issued in the aggregate amount of \$47.5.

The Company has guaranteed certain bank loans contracted by franchisees. As at April 30, 2003, these loans amounted to approximately \$7.3.

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys Capital Incorporated (a subsidiary of Sobeys Inc.) guaranteed to the landlord a performance, by SERCA Foodservice, of all its obligation under the lease. The remaining term of the lease is 17 years with an aggregate obligation of \$51.5. At the time of the sale of assets of SERCA Foodservice to Sysco Corp. the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser and Sysco Corp. agreed to indemnify and hold Sobeys Capital Incorporated harmless from any liability it may incur pursuant to its guarantee.

Sobeys Capital Incorporated (majority equity investor in IGA Canada Limited) is a member of the IGA Canada Buying Group and enjoys all the rights, benefits, and obligations associated with being a member of this Buying Group. Sobeys Capital Incorporated along with other members of the Buying Group have a performance commitment for any and all vendor payable obligations of the Buying Group. Sobeys Capital Incorporated's commitment is approximately \$50.0. After an extensive review, it was determined it was not in Sobeys Capital Incorporated's best long-term interest to remain a member of the Buying Group. On March 26, 2003, the Shareholders of IGA Canada Limited approved a resolution terminating the operations of the IGA Canada Buying Group effective December 31, 2003. On April 14, 2003, the members of the Buying Group were notified of the shareholders' intention to terminate the operations of the Buying Group. Accordingly, all Sobeys Capital Incorporated obligations associated with being a member of the Buying Group will cease to exist approximately thirty days after December 31, 2003.

There are various claims and litigation, which the Company is involved with, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

## Notes to the Consolidated Financial Statements

**17. EMPLOYEE FUTURE BENEFITS**

The Company has a number of defined benefit and defined contribution plans providing pension and other retirement benefits to most of its food distribution and real estate employees.

**Defined contribution plans** The total expense for the Company's defined contribution plans is as follows:

2003	\$ 11.0
2002	\$ 10.1

**Defined benefit plans** Information about the Company's defined benefits plans, in aggregate, is as follows:

	Pension Benefit Plans	Pension Benefit Plans	Other Benefit Plans	Other Benefit Plans
	2003	2002	2003	2002
<b>Accrued benefit obligation</b>				
Balance, beginning of year	\$ 206.8	\$ 206.4	\$ 90.9	\$ 61.8
Current service cost	2.9	3.8	3.2	1.6
Interest cost	15.0	14.9	6.3	4.3
Employee contributions	0.5	0.4	-	-
Divestiture of SERCA Foodservice	-	-	-	(3.9)
Benefits paid	(17.2)	(23.2)	(4.7)	(4.5)
Plan merger	11.8	-	-	-
Other adjustments	-	2.5	-	-
Actuarial loss	15.2	2.0	(5.3)	31.6
Balance, end of year	\$ 235.0	\$ 206.8	\$ 90.4	\$ 90.9
<b>Plan assets</b>				
Market value, beginning of year	\$ 203.5	\$ 209.5	\$ -	\$ -
Actual return on plan assets	(13.3)	9.2	-	-
Employer contributions	15.1	7.6	4.7	4.5
Employee contributions	0.5	0.4	-	-
Plan merger	11.2	-	-	-
Benefits paid	(17.2)	(23.2)	(4.7)	(4.5)
Market value, end of year	\$ 199.8	\$ 203.5	\$ -	\$ -
<b>Funded status</b>				
Deficit	\$ (35.2)	\$ (3.3)	\$ (90.4)	\$ (90.9)
Unamortized past service cost	0.4	0.5	-	-
Unamortized actuarial loss	65.5	21.3	13.3	19.2
Accrued benefit asset (liability)	\$ 30.7	\$ 18.5	\$ (77.1)	\$ (71.7)
<b>Expense</b>				
Current service cost	\$ 2.9	\$ 3.8	\$ 3.2	\$ 1.6
Interest cost	15.0	14.9	6.4	4.3
Amortization	0.2	0.1	0.6	-
Expected return on plan assets	(15.1)	(16.4)	-	-
	\$ 3.0	\$ 2.4	\$ 10.2	\$ 5.9

## Notes to the Consolidated Financial Statements

Included in the above accrued benefit obligation at year-end are the following amounts in respect of plans that are not funded:

	Pension <b>Benefit Plans</b>	Pension Benefit Plans	Other <b>Benefit Plans</b>	Other Benefit Plans
	2003	2002	2003	2002
Accrued benefit obligation	\$ 17.5	\$ 16.6	\$ 77.1	\$ 71.7

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of April 30, 2003):

	Pension <b>Benefit Plans</b>	Pension Benefit Plans	Other <b>Benefit Plans</b>	Other Benefit Plans
	2003	2002	2003	2002
Discount rate	6.50%	7.00%	6.50%	7.00%
Expected long-term rate of return on plan assets	7.00%	8.00%		
Rate of compensation increase	4.00%	4.00%		

For measurement purposes, a 10 percent fiscal 2003 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2010 is 6 percent. The average remaining service period of the active employees covered by the pension benefit plans and other benefit plans is 12 and 18 years, respectively.

#### 18. COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation.

# INVESTOR INFORMATION

## EMPIRE COMPANY LIMITED

Head Office:  
115 King Street  
Stellarton, Nova Scotia  
B0K 1S0  
Telephone: (902) 755-4440  
Fax: (902) 755-6477  
Internet: [www.empireco.ca](http://www.empireco.ca)

## INVESTOR RELATIONS AND INQUIRIES

Shareholders, analysts, and investors should direct their financial inquiries or requests to Stewart H. Mahoney, CFA, Vice President, Treasury and Investor Relations  
E-mail: [investor.relations@empireco.ca](mailto:investor.relations@empireco.ca)

Communications regarding investor records including changes of address or ownership, should be directed to the Company's transfer agent, CIBC Mellon Trust Company.

## AFFILIATED COMPANY WEB ADDRESSES

[www.sobeys.com](http://www.sobeys.com)  
[www.empiretheatres.com](http://www.empiretheatres.com)  
[www.crombieproperties.com](http://www.crombieproperties.com)

## SHAREHOLDERS' ANNUAL GENERAL MEETING

September 10<sup>th</sup>, 2003 at 11:00 a.m.  
Aberdeen Cinemas (Studio 7)  
610 East River Road  
New Glasgow, Nova Scotia

## STOCK SYMBOLS

Non-voting Class A shares - EMPA  
Preferred shares:  
Series 2 - EMP.PR.B

## AVERAGE DAILY TRADING VOLUME (TSE)

26,792

## COMMON DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2004\*

Record Date	Payment Date
July 15 <sup>th</sup> , 2003	July 31 <sup>st</sup> , 2003
Oct. 15 <sup>th</sup> , 2003	Oct. 31 <sup>st</sup> , 2003
Jan. 15 <sup>th</sup> , 2004	Feb. 2 <sup>nd</sup> , 2004
April 15 <sup>th</sup> , 2004	April 30 <sup>th</sup> , 2004

\* subject to approval by Board of Directors

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange

## OUTSTANDING SHARES

As of July 15, 2003

Non-Voting Class A common	30,888,324
Options exercisable	
with Class A common shares	64,074

Class B common, voting 34,897,456

## TRANSFER AGENT

CIBC Mellon Trust Company  
Telephone: (800) 387-0825  
Email: [enquiries@cibcmellon.com](mailto:enquiries@cibcmellon.com)

## BANKERS

Bank of Montreal  
Bank of Nova Scotia  
Canadian Imperial Bank of Commerce  
National Bank of Canada  
Royal Bank of Canada  
TD Canada Trust

## SOLICITORS

Stewart McKelvey Stirling Scales  
Halifax, Nova Scotia

## AUDITORS

Grant Thornton, LLP  
New Glasgow, Nova Scotia

## MULTIPLE MAILINGS

If you have more than one account, you may receive a separate annual report for each. If this occurs, please contact CIBC Mellon Trust Company at (800) 387-0825 to eliminate the multiple mailings.

## EXEMPLAIRE FRANÇAIS

Vous pouvez obtenir un exemplaire français de ce rapport annuel en écrivant à :

Empire Company Limited  
Investor Relations  
115 King Street  
Stellarton, Nova Scotia  
B0K 1S0

## ELEVEN YEAR FINANCIAL REVIEW

<i>(Years ended April 30<sup>th</sup>)</i>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Financial Results</b> (\$ in millions; except ROE)				
Revenue	<b>10,624.2</b>	9,926.5	9,331.1	9,100.1
Operating income	<b>444.9</b>	416.2	341.1	309.7
Interest expense	<b>92.9</b>	111.6	145.8	159.6
Income taxes	<b>120.4</b>	104.8	131.9	68.1
Minority interest	<b>67.8</b>	50.0	34.3	32.9
Earnings from continuing operations				
before net capital gains and other items	<b>159.9</b>	123.5	78.5	78.8
Earnings from discontinued operations <sup>(1)</sup>	<b>-</b>	8.7	10.0	5.9
Operating earnings	<b>159.9</b>	132.2	88.5	84.7
Capital gains and other items, net of tax <sup>(2)</sup>	<b>(6.0)</b>	63.7	491.5	2.1
Net earnings	<b>153.9</b>	195.9	580.0	86.8
Return on equity	<b>11.4%</b>	16.4%	69.1%	13.3%
<b>Financial Position</b> (\$ in millions)				
Total assets	<b>4,516.1</b>	4,318.0	4,254.3	4,171.0
Long-term debt (excluding current portion)	<b>923.1</b>	975.0	1,107.2	1,332.0
Shareholders' equity	<b>1427.1</b>	1,290.6	1,115.0	602.8
<b>Per Share Information</b> (\$ per share)				
Operating earnings	<b>2.43</b>	2.00	1.33	1.10
Capital gains and other items, net of tax <sup>(2)</sup>	<b>(0.09)</b>	0.97	7.49	0.03
Net earnings	<b>2.34</b>	2.97	8.82	1.13
Dividends				
Non-voting Class A Common Shares	<b>0.3300</b>	0.2138	0.1700	0.1400
Class B Common Shares	<b>0.3300</b>	0.2138	0.1700	0.1400
Book value	<b>21.54</b>	19.47	16.82	8.73
<b>Share Price</b> (\$ per share)				
High	<b>33.25</b>	33.30	18.25	16.98
Low	<b>23.70</b>	15.75	13.88	12.33
Close	<b>23.85</b>	28.88	17.00	16.05
<b>Weighted average number of common shares outstanding</b> (in millions)				
	<b>65.8</b>	65.7	65.6	75.6

<sup>(1)</sup> The financial contribution of SERCA Foodservice operations, which was sold at the end of 2002.

<sup>(2)</sup> Includes \$50.0 million gain on sale of discontinued operations in 2002.

1999	1998	1997	1996	1995	1994	1993
5,362.7	2,912.2	3,149.7	2,915.2	2,699.5	2,577.4	2,358.4
184.4	108.6	114.2	110.1	122.5	117.6	104.7
112.6	76.8	79.2	87.7	89.3	81.4	73.4
49.1	17.9	16.9	13.7	16.8	19.4	15.6
9.2	-	0.4	0.5	0.5	0.5	0.3
59.0	56.1	51.5	41.1	42.7	42.9	42.4
1.1	8.1	-	-	-	-	-
60.1	64.2	51.5	41.1	42.7	42.9	42.4
74.9	23.6	1.4	(19.4)	(1.5)	5.0	(13.9)
135.0	87.8	52.9	21.7	41.2	47.9	28.5
21.7%	17.9%	11.9%	3.9%	9.4%	12.2%	6.8%
4,023.5	1,907.2	1,797.4	1,731.4	1,761.1	1,696.9	1,426.5
1,391.8	616.5	606.8	656.1	648.0	633.6	514.9
737.5	558.3	479.6	474.9	469.5	447.9	401.6
0.78	0.85	0.65	0.47	0.49	0.48	0.47
1.00	0.32	0.02	(0.26)	(0.02)	0.07	(0.21)
1.78	1.17	0.67	0.21	0.47	0.55	0.26
0.1363	0.1213	0.1100	0.1075	0.1000	0.1000	0.0900
0.1363	0.1163	0.0900	0.0825	0.0600	0.0600	0.0450
9.03	7.06	5.93	5.24	5.12	4.80	3.83
16.27	14.25	7.85	7.88	8.25	8.88	7.38
12.50	7.80	6.13	5.75	6.50	6.13	5.00
13.00	13.63	7.85	6.15	6.69	8.07	7.13
75.0	73.9	74.0	74.6	74.5	70.0	68.5

## Mission Statement

**Goal:** Empire is committed to building shareholder value through long-term profitability and growth by becoming a market leader in its core operating businesses and by investing in other opportunities to augment this growth in value.

**How:** We believe that the three key factors in the creation of value are first, strong management, second, financial structures which facilitate growth and third, emphasis on long-term growth in cash flow that exceeds the after-tax dollar cost of capital.

**Values:** Empire will be a good corporate citizen, upholding the highest standards of integrity and ethical conduct.

## Community Involvement

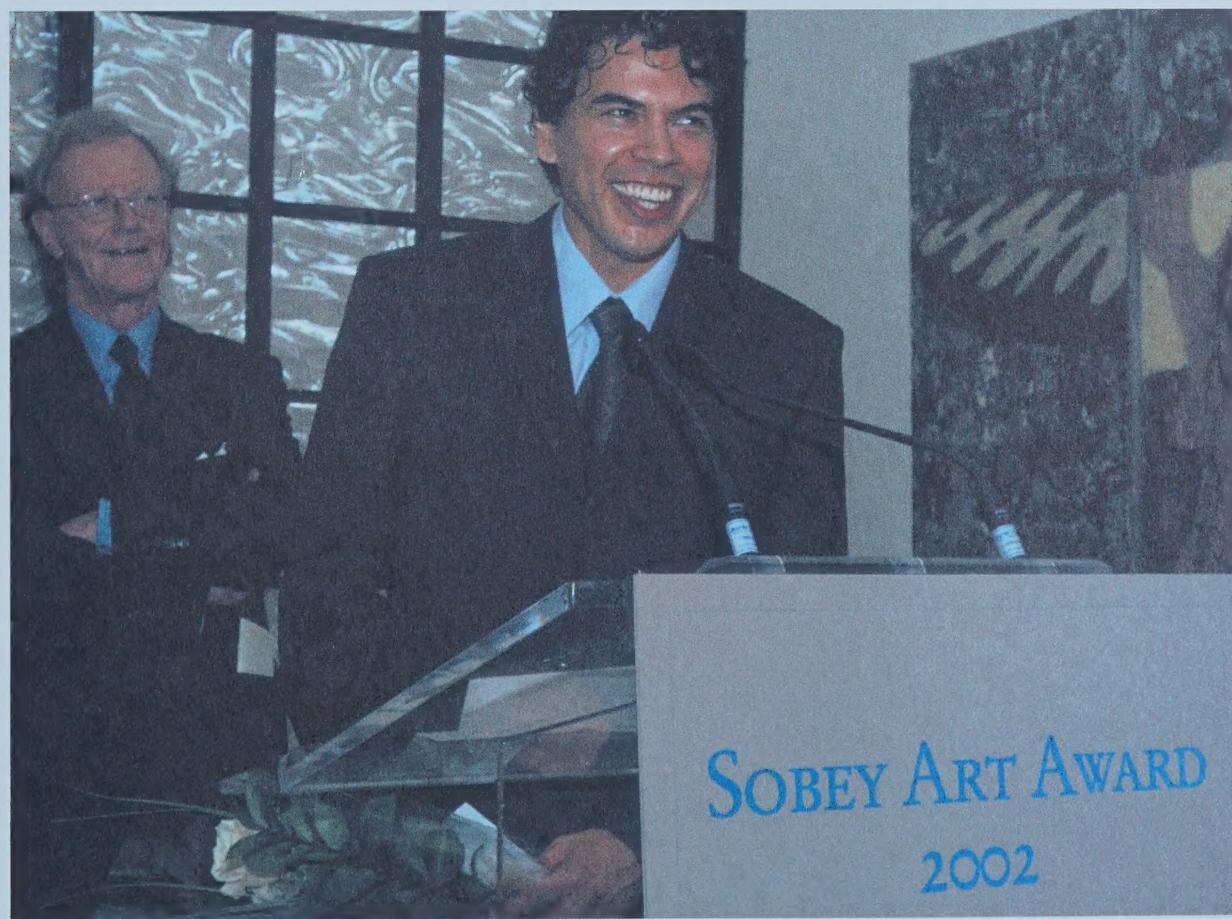
Empire and its subsidiary companies and affiliates are active members of the communities in which they operate through the volunteer efforts of employees and the financial support provided each year by the Sobey Foundation. The Company is a member of the "Imagine" corporate giving program and sponsors numerous charitable initiatives through its operating companies and franchisees.

**Imagine**  A Caring Company

## The Sobey Art Award

The Sobey Art Foundation was established in 1981 with a mandate to continue the work of the late Frank H. Sobey as a dedicated supporter and collector of Canadian visual art. Since then, the Foundation has assembled one of the finest collections of 19th and 20th century Canadian art at Crombie House, the former home of Frank and Irene Sobey in Pictou County, Nova Scotia. The collection, which is open to the public each Wednesday during July and August or by appointment throughout the year, contains an impressive range of works from many of Canada's leading painters, including Cornelius Krieghoff, Tom Thomson, and J.E.H. McDonald.

In 2001, the Foundation extended its support to contemporary Canadian Art with the creation of the Sobey Art Award, the richest of its kind in Canada. Every two years, the Sobey Art Award is bestowed upon an emerging contemporary Canadian artist, 39 years of age or younger, who has exhibited work in one of the country's public or private art galleries within the past 18 months. A panel of curatorial advisors, representing major galleries from each region of Canada, develops a shortlist of aspiring contestants and chooses the eventual winner. The award, which directs \$50,000 to the winner, is intended to provide meaningful assistance to the country's most promising artists, while stimulating greater public interest in their work. For further information pertaining to the Sobey Art Award please visit the website at [dev3.axionic.com](http://dev3.axionic.com).



*Brian Jungen, Prototype for a New Understanding #4, 1998, Nike Air Jordans, hair. Courtesy of Catriona Jefferies Gallery, Vancouver.*

In December, 2002, the inaugural \$50,000 Sobey Art Award was awarded to Brian Jungen, a Vancouver artist representing the West Coast region of Canada. Since graduating from the Emily Carr Institute of Art and Design in 1992, Brian Jungen has gained a national reputation as one of Canada's most promising young artists. Noted for his ability to reconfigure everyday objects and transform them into complex and compelling art, Jungen encourages us to reconsider the world around us. His award winning piece is the native-style mask created from a disassembled pair of Nike Air Jordan basketball shoes. The red, white, and black high-tops have been reconfigured into a North-west Coast native ceremonial mask.

E M P I R E  
COMPANY LIMITED

[WWW.EMPIRECO.CA](http://WWW.EMPIRECO.CA)